KEDI ECONOMIC SURVEY

NOVEMBER 1982 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 5, November 1, 1982

KEDI ECONOMIC SURVEY

NOVEMBER 1982 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reporoduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 118200774
KEDI November 1,1982

© Kent Economic and Development Institute

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 2
1.03 ASSUMPTIONS 3

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 5
1.20 PRICES 8
1.30 EMPLOYMENT AND LABOR 10
1.41 HOUSING 12
1.42 AUTOMOBILES 14
1.50 BUDGETS 16
1.60 INCOME 18
1.70 MONEY AND CREDIT 20
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 22

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 24

4.00 HISTORICAL DATA SOURCES 25

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 4
1.10 REAL GROWTH 6
1.20 PRICES AND NOMINAL GNP 9
1.30 EMPLOYMENT AND LABOR 11
1.41 HOUSING 13
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 23
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 24
3.00 HISTORICAL DATA SOURCES 25

This forecast uses the October, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the October 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

The forecast for the economy is slightly reduced to real growth averaging 2.8 per cent for the next year. Interest rate declines have been forecast here for a long time for this part of 1982. The forecast has become reality. REAL GROWTH This quarter continues with mixed news, but the fourth quarter will show small gains. PRICES Inflation has continued to slow. KEDI sees the rate for the next few years as somewhat higher than most. EMPLOYMENT The jobless rate is slightly increased here. The average for 1982 is now seen as 9.5 per cent and it is possible that the rate will edge up just a tad in the next few months. HOUSING The September increase in housing starts is in line with forecasts maintained here for many months. Still, housing will remain curtailed as compared to "normal" levels. AUTOS The forecast is not changed. Auto executives have recently cut production again--to levels more in line with those forecast here for quite some time. BUDGETS KEDI does not expect red ink in such an overwhelming flow as the Congressional Budget Office. A balanced budget is out of the question in the next few years. Achieving it would be at a very high price to the economy. INCOME The forecast remains the same. CPI and wage projections combined work out to average wages being about the same, in real terms, over the next few years. MONEY AND CREDIT The forecast maintained here has become reality: relaxation. A tightening will occur next year. INTEREST RATES The recent declines have been part of the projections here since 1980. The prime rate is now seen as being in the 12.5 range at year's end.

1.02 OVERVIEW

KEDI has slightly lowered its forecast of real growth over the next few years to 2.8 from an average of 3.0 per cent. Still, it is not as gloomy as the Federal Reserve and other leading forecasters. The Fed forecasts growth of just 2 per cent over the next 12 months, adjusted for inflation.

For over two years, KEDI has predicted that interest rates would be going down in the latter part of 1982. They have been doing that recently. Calculations show that enough funds will be generated to cover federal deficits without pressure to increase interest rates. Most economists predicted that interest rates would go up. KEDI was one of the few that foresaw the decline that has been occuring of late. It is forecast here, that the interest rate declines have reached a plateau. Stability will prevail next year as will restrictive Federal Reserve policy.

This Institute has maintained here the recovery next year will be quite slow. That view is now being confirmed. The Business Council (200 chief executives of large corporations) predicted early in October that the recovery will be slow and painful as the jobless rate will not decline much by the end of next year. G. William Miller, the former Treasury secretary under Carter, sees recovery as slow and sluggish. The chairman of the U.S. Chamber of Commerce predicted a very moderate upturn that has, in effect, begun.

MIT professor Lester C. Thurow sees no sign of recovery, but does see continuation of what we have had this year.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No. 6 and No. 7 have been updated.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $34 per barrel; in 1984 it will go up to $37 per barrel; in 1985, to $40 per barrel, and in 1986, to $42 per barrel.

2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 tightening is expected.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. in 1983. A low harvest in the U.S.S.R. is expected in 1984, and U.S. record crops in 1984-1986.

7. Average rates of growth in 1982-1986 in the major industrial countries are anticipated: West Germany 3.0%; Japan 3.5%, Italy 2.4%, Great Britain 2.1%, France 2.8%.

8. No drastic changes in international relationships are assumed.

The November 1982 KEDI forecast is highlighted in Table 1.0 on page 4.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1479.1	1637.4	1699.6
Index of industrial production	1967=100	151.0	140.0	169.2	176.1
Capacity utilization	%	78.5	70.7	78.2	79.0
Unemployment rate	%	7.6	9.5	7.7	7.4
Private housing starts	%	1.084	1.016	1.556	1.617
Car sales	mil.	8.6	7.8	8.7	8.8
Implicit GNP price deflator	1972=100	195.5	207.8	257.4	276.9
Consumer price index	1967=100	272.4	290.0	362.6	391.5
Producer price index*	1967=100	269.7	280.5	360.4	393.9
Federal deficit	bil.$	-60.0	-123.8	-72.6	-54.3
Personal income	bil.$	2415.8	2572.6	3188.8	3500.3
Prime rate	%	18.87	14.94	12.72	13.01
Mortgage rate	%	16.52	15.40	13.03	13.48
Currency plus demand deposits	bil.$	427.1	454.4	554.2	516.0
Commercial and industrial loans	bil.$	360.6	402.6	506.3	543.3

* Finished goods

1.10 REAL GROWTH

(Table 1.10 on page 6)

Recent data confirm the forecast that has existed here for many months: THE THIRD QUARTER WILL BE CLOSE TO FLAT AND THE FOURTH QUARTER WILL SHOW A SMALL GAIN.

The news continues to be mixed, but the pendulum is starting to swing slowly toward more items indicating stability or small gains.

First, the negative or "ho-hum" news.

1. Retail sales edged up just 1 per cent in September and that was largely due to a temporary spurt in car sales. Without the autos, retail sales were only up an adjusted 0.4 per cent. The auto sales were boosted by bargain purchases of the 1982 models before the 1983 ones are produced in "quantity." As far as the big retailers are concerned, two of the top five had declines in September. It is interesting that K-Mart and Montgomery Ward had losses while Sears and Penny's gains were in the 2 per cent range. Yet, the higher priced, higher-quality stores such as O'Neils and Bloomingdale's,(owned by May and Federated Department Stores, respectively), reported increases of 6 and 7 per cent. (The recession and the jobless rate are not hitting the middle and upper classes as hard as the working and lower-middle level of families.)

2. The monthly survey of buying managers did not show much that was favorable. A little over half viewed the third quarter as worse than the second one. About one-fifth are optimistic about the future.

3. The Conference Board reported consumer confidence remained low in September. The buying plans index moved down.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2	3	4		
Gross national product, 1972$	bil. 1972 $	1502.6	1470.7	1478.4	1481.2	1486.0	1479.1	-1.6
Index of industrial product.	1967=100	151.0	141.6	139.2	138.1	141.0	140.0	-7.3
Unemployment rate	%	7.6	8.8	9.5	9.9	9.9	9.5	25.0
Capacity utilization rate	%	78.5	71.6	70.3	70.0	70.7	70.7	-10.0
Private housing starts	mil. units	1.084	.919	.958	1.104	1.084	1.016	-6.3
Car sales	mil. units	8.6	8.3	7.5	7.8	7.7	7.8	-9.4

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product, 1972$	bil. 1972 $	1479.1	1500.7	1514.9	1527.1	1544.0	1521.7	2.8
Index of industrial product.	1967=100	140.0	143.5	147.1	149.2	152.8	148.2	5.8
Unemployment rate	%	9.5	9.3	8.9	8.4	8.3	8.7	-8.5
Capacity utilization rate	%	70.7	71.3	72.2	73.8	74.7	73.0	3.2
Private housing starts	mil. units	1.016	1.084	1.345	1.396	1.375	1.300	27.9
Car sales	mil. units	7.8	7.9	8.0	7.9	8.1	8.0	5.2

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product, 1972$	bil. 1972 $	1521.7	1556.3	1572.6	1589.2	1603.9	1580.5	3.8
Index of industrial product.	1967=100	148.2	154.9	158.6	161.7	164.8	160.0	7.9
Unemployment rate	%	8.7	7.9	7.6	7.4	7.3	7.6	-12.7
Capacity utilization rate	%	73.0	75.4	77.2	77.8	78.6	77.3	5.8
Private housing starts	mil. units	1.300	1.385	1.418	1.492	1.481	1.444	11.0
Car sales	mil. units	8.0	8.3	8.4	8.5	8.6	8.5	6.2

*Historical data (1) % change over previous year

REAL GROWTH

4. Industrial production was off an adjusted 0.6 per cent in September after dropping by just 0.5 per cent in August. Since July of 1981, output has gone down by 10.8 per cent.

5. Incoming new orders were still edging down. In September, only 17 per cent of purchasing managers reported an increase in orders, whereas 32 per cent reported more declines.

Now, for some signs of improvements:

6. Business leaders are getting a bit more bright-eyed as to the future of the economy. The confidence index of the Conference Board's survey of 1,500 chief executives moved up to 55 in the third quarter. It had been at 52 in the second quarter (1969-70=100).

7. Housing starts gained in September. Indications are they will continue. See more in the Housing section.

8. The drop in interest rates will definitely show in gains for the economy. The reader is referred to the section on interest rates.

9. Productivity rose at an annual rate of 4 per cent in the third quarter. Unemployment does that--some gain in productivity goes along with high jobless rates.

10. The September decline in the capacity utilization rate is seen here as insignificant.

11. It is good news of a mild sort that inventories are about stable. Companies have generally stopped reducing their stocks.

12. As to the stock market surge, retrenchment, surge, it is the view here that it is temporary. The stock market is seen as firm and generally stable in the last quarter of this year and during 1983.

1.20 PRICES

(Table 1.20 on page 9)

Good news here. The advances in the prices as measured by both the CPI and the PPI show more slowing down. In September, the declines in mortgage rates helped hold the CPI change to roughly 6.0 per cent. That was the lowest rate of change in five months.

Producer prices inched down to a September level, unadjusted, of 281.4 per cent of the 1967 average from the prior month's level of 282.4.

There is a range of outlooks among economists and others trying to get a grip of the future of the economy. The Federal Reserve has some board members that hope to see the rate of inflation near 4 per cent by the end of next year and 3 per cent in 1984. That is seen here as wistful thinking. One Fed governor, Henry Wallich, sees settling for rate of, say, 6 per cent no more sensible than settling for 16 per cent. Aiming for as close to zero as you can get is the goal for him. Anthony Solomon, president of the New York Federal Reserve hopes to aim toward zero and complete the trip toward greater price stability.

Reality is not the same as hopes. A more realistic view is expressed by Lawrence Chimerine of Chase Econometrics. He does not see inflation as going much lower than it is now. According to him and other forecasters, inflation will be around 5 per cent this year.

Data Resources and Wharton Econometric view the inflation rate in the 5-6 per cent area for the next few years. That is seen here as still too hopeful.

Some corporate executives predict the rate as going up in the 6.5-7.0 per cent range in 1983. Others look to the 5-6 per cent mentioned here.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1 *	2	3	4		
Consumer price index,n.s.a.	1967=100	272.4	283.6	287.4	292.8	296.1	290.0	6.5
Producer price index,n.s.a.**	1967=100	269.7	277.2	278.2	281.2	285.9	280.6	4.0
Implicit GNP price deflator	1972=100	195.5	203.6	206.0	208.9	212.7	207.8	6.3
Gross national product	bil.$	2937.7	2995.5	3045.2	3091.4	3160.5	3073.3	4.6
Personal consump.expend.	bil.$	1843.2	1919.4	1947.8	1989.5	2016.7	1968.4	6.8
Gross private dom.investment	bil.$	471.5	414.8	431.5	438.5	452.6	434.4	-7.9

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	290.0	303.1	307.9	313.3	318.8	310.8	7.2
Producer price index,n.s.a.**	1967=100	280.6	291.3	298.8	306.1	311.7	302.0	7.6
Implicit GNP price deflator	1972=100	207.8	216.3	219.9	223.2	226.3	221.4	6.5
Gross national product	bil$	3073.3	3246.0	3331.2	3408.5	3494.1	3370.0	9.7
Personal consump.expend.	bil.$	1968.4	2061.3	2120.7	2203.7	2265.4	2162.8	9.9
Gross private dom.investment	bil.$	434.4	479.7	493.1	502.4	512.1	496.8	14.4

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	310.8	323.9	330.7	339.9	346.0	335.1	7.8
Producer price index,n.s.a.**	1967=100	302.0	314.6	323.9	333.8	345.0	329.3	9.0
Implicit GNP price deflator	1972=100	221.4	231.3	236.9	241.5	247.4	239.3	8.1
Gross national product	bil.$	3370.0	3599.7	3725.5	3837.9	3968.0	3782.7	12.2
Personal consump.expend.	bil.$	2162.8	2330.6	2350.8	2400.5	2450.2	2383.0	10.2
Gross private dom.investment	bil.$	496.8	519.7	536.5	550.1	564.9	542.8	9.3

*Historical data (1) % change over previous year **Finished goods

PRICES

So, what to make of all this? Be it a Federal Reserve governor's hope, or other forecasters calculations, KEDI predicts the rate will be higher. Inflation will march slowly ahead next year and the year after. The rate for 1983 is still seen as in the 7.2 per cent range. There will be no further downward trend.

1.30 EMPLOYMENT NAD LABOR

(Table 1.30 on page 11)

KEDI anticipates a very small change in the unemployment rate in the last quarter of this year as compared to the September rate of 10.1 per cent. That rate did just edge over the rate seen as most likely here.

This Institute now agrees with Martin Feldstein (nominee for chairman of the Council of Economic Advisers) that there will likely be more bad news coming about joblessness over the next few months. However, KEDI is not as pessimistic as Allen Sinai of Data Resources. He sees a 10.5 per cent jobless rate at the end of the year as a possibility, The revised forecast along with the forecast from last month is presented.

	Average Unemployment Rate	
	Current issue	October issue
1982	9.5%	9.4%
1983	8.7%	8.6%
1984	7.6%	7.5%

In other countries, things are mixed. The jobless rate in England was up to 13 per cent in August. The rate in Canada was 12.2 per cent for the same month. Some countries are better off--statistically at least. The West German rate was at 7 per cent in September and the Swedish rate was at 3.4 per cent. The Japanese rate was at 2.2 per cent this September.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2	3	4	1982	% (1)
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.7	111.7	110.4	1.6
Employment	mil.	100.5	99.5	99.8	99.8	100.7	100.0	-.5
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.1	96.4	96.5	97.4	96.6	-.5
Unemployment rate	%	7.62	8.77	9.46	9.89	9.86	9.50	24.7

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.4	112.4	113.6	114.7	115.6	114.1	3.4
Employment	mil.	100.0	101.9	103.6	105.1	106.0	104.2	4.2
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agricult.	mil.	96.6	98.6	100.2	101.8	102.6	100.8	4.3
Unemployment rate	%	9.50	9.34	8.86	8.35	8.28	8.71	-9.8

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	116.7	117.4	118.2	119.5	118.0	3.4
Employment	mil.	104.2	108.4	108.4	109.5	110.8	109.3	4.9
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Non agricult.	mil.	100.8	105.1	105.1	106.1	107.4	105.9	5.1
Unemployment rate	%	8.71	7.94	7.63	7.39	7.31	7.56	-13.2

*Historical data (1) % change over previous year

1.41 HOUSING

(Table 1.41 on page 13)

It has been forecast here for the last year that housing would begin to pick up in the third and fourth quarters of this year. In September there was a 14.4 per cent increase in housing starts.

This Institute does not agree with Commerce Undersecretary Robert Dederick in his assessment that house building will likely assume its traditional leading role in recovery of the economy.

For 1983, KEDI expects relatively significant improvement. It is relative to the base, i.e., the gain seems large, but given more normal levels of 1.8-2.0 million units a year, it is still well below par--recuperating but not yet well. Housing and autos will not be the pillars of recovery that they have been in the past. This economy is becoming a service economy and growth there is becoming a leader.

Single-family units are seen as increasing by 25 per cent in 1983 and multifamily units by 32 per cent. Although that seems high, it still leaves the total for 1983 at roughly 1.3 million units--still below normal by historic standards.

KEDI agrees with Michael Sumichrast of the National Association of Home Builders that housing will continue to improve with decreases in interest rates.

KEDI's long-term forecast of housing starts is presented:

	Housing starts total (mil.units)
1982	1.016
1983	1.300
1984	1.444
1985	1.556
1986	1.617

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3	4		
Single-family housing starts	mil.	.706	.586	.603	.638	.645	.618	5.5
Multifamily housing starts	mil.	.379	.333	.355	.476	.449	.403	6.3
Mobile home shipments	mil.	.241	.238	.246	.256	.257	.249	3.3
Permits authorized	mil.	.969	.832	.924	1.114	1.167	1.009	4.1
1-family unit** price, new	tho.$	83.1	80.8	85.9	92.0	96.4	88.8	6.9
1-family unit** price,existing	tho.$	78.0	79.2	80.8	83.0	86.3	82.3	5.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.618	.654	.805	.814	.806	.770	24.6
Multifamily housing starts	mil.	.403	.430	.540	.582	.569	.530	31.5
Mobile home shipments	mil.	.249	.273	.295	.308	.329	.301	20.9
Permits authorized	mil.	1.009	1.014	1.181	1.319	1.310	1.206	19.5
1-family unit** price, new	mil.	88.8	98.0	101.4	102.8	104.9	101.8	14.6
1-family unit** price,existing	tho.$	82.3	88.9	91.8	94.6	97.0	93.1	13.1

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.770	.791	.827	.863	.875	.839	9.0
Multifamily housing starts	mil.	.530	.594	.591	.629	.606	.605	14.2
Mobile home shipments	mil.	.301	.295	.319	.340	.308	.316	5.0
Permits authorized	mil.	1.206	1.275	1.372	1.396	1.326	1.342	11.3
1-family unit** price, new	tho.$	101.8	107.2	110.4	113.7	116.0	111.8	9.8
1-family unit** price,existing	tho.$	93.1	98.9	101.1	103.5	105.2	102.2	9.8

*Historical data (1) % change over previous year **Not seas. adjusted

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast remains essentially unchanged. Both the short-term and long-term view are gloomy at this Institute.

The early October rise is considered temporary. Mid-October sales were down 0.4 per cent below the year earlier period and reached a 24-year low for that 10-days period.

Production plans were cut again for the fourth quarter. Since July the three major auto makers have trimmed their fourth quarter production plans by 12 per cent. They are now more in line with what has been forecast here for many months. For the fourth quarter, the five major auto companies look to making a total of 1.27 million cars which is 1.7 per cent lower than the final quarter of 1981. Total car output for 1982 will be roughly in the 5 million range, according to those in the industry. That would make it the smallest output since 1958 and 18 per cent below 1981's paltry production. Earlier there were hopes in the industry of a bullish final quarter (never part of the forecast here).

The auto industry, according to a Nissan executive will not reach a sales level of the 1977 million mark until three years from now. KEDI's outlook does not point to anything like 11 million in the next three years. Production is seen as picking up somewhat to a level of roughly 6.5 million units in 1984, for instance.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3	4		(1)
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	7.7	7.8	-9.3
Domestic	mil.	6.3	6.0	5.5	5.5	5.5	5.6	-11.2
Imported	mil.	2.3	2.3	2.0	2.2	2.2	2.1	-8.7
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.7	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	5.2	4.8	-13.8
Light-duty truck sales	mil.	1.6	1.9	1.7	1.7	1.8	1.8	12.5

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	7.8	7.9	8.0	7.9	8.1	8.0	2.6
Domestic	mil.	5.6	6.1	6.0	6.0	6.3	6.1	8.9
Imported	mil.	2.1	1.8	2.0	1.9	1.8	1.9	-9.5
Dealers inventories**	mil.	1.4	1.7	1.6	1.4	1.4	1.5	7.1
Factory shipments**	mil.	4.8	5.6	5.8	5.5	6.1	5.8	20.8
Light-duty truck sales	mil.	1.8	1.7	1.8	1.9	1.9	1.8	.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.0	8.3	8.4	8.5	8.6	8.5	7.5
Domestic	mil.	6.1	6.6	6.7	6.9	6.9	6.8	11.5
Imported	mil.	1.9	1.7	1.7	1.6	1.7	1.7	-10.0
Dealers inventories**	mil.	1.5	1.5	1.5	1.4	1.6	1.5	.0
Factory shipments**	mil.	5.8	6.4	6.5	6.4	6.7	6.5	14.0
Light-duty truck sales	mil.	1.8	2.0	2.0	2.1	2.2	2.1	16.7

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS

(Table 1.50 on page 17)

KEDI's forecast of the Federal deficit for fiscal 1982 has hit the mark. For months, it has been calculated here that the total would be close to $110 billion. In late October, it was announced by Treasury Secretary Donald Regan that the government spent $111 billion more than it had received. That was close to double the red-ink total of 1981 and made the previous record of about $66 billion for 1976 seem relatively small.

Experts in Congress and the White House look to a deficit of $150 billion in fiscal 1983 and $200 billion the following year if no changes are made to curtail the growth in debt. KEDI does not see the total as quite that large as can be seen in the table here which has been revised due to the reduced forecast data for indirect and business taxes, increased projections of federal spending related to slightly higher unemployment figures now foreseen for the 1982-84 years.

PROJECTION OF FISCAL YEAR DEFICITS COMPARED
(Billions of dollars)

	KEDI Oct.issue	KEDI Nov.issue	Congress.Budget Office as of October
1983	124	130	150
1984	110	118	200
1985	80	89	n.a.
1986	62	74	n.a.

Since 1980, KEDI has never projected a balanced budget. None is in our future for the next few years. Calculations here show that if the Federal budget would be brought into balance by increasing business and income taxation and cutting defense spending, the longed-for recovery would not occur and the economy would be stuck in a sustained recession. In this forecast, the projected surpluses of state and local budgets have been slightly reduced.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2	3	4	1982	% (1)
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	296.9	300.1	300.8	.8
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	45.3	47.4	45.9	-31.8
Surplus/deficit	bil.$	-60.0	-119.3	-119.6	-135.9	-120.2	-123.8	206.3
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	98.6	101.3	97.2	9.7
Corporate prof. tax accruals	bil.$	10.1	10.1	10.2	10.2	10.6	10.3	2.0
Surplus/deficit	bil.$	31.7	27.7	32.3	33.0	32.9	31.5	.0

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Federal govt.:								
Income taxes	bil.$	300.8	305.2	308.4	295.4	305.9	303.8	1.2
Corporate prof. tax accruals	bil.$	45.9	53.1	60.4	66.2	70.3	62.5	42.0
Surplus/deficit	bil.$	-123.8	-118.0	-126.5	-138.4	-119.7	-125.7	1.5
State and local governments:								
Income taxes	bil.$	97.2	105.1	109.9	111.3	112.4	109.7	12.9
Corporate prof. tax accruals	bil.$	10.3	12.1	13.0	13.4	14.0	13.1	27.1
Surplus/deficit	bil.$	31.5	34.0	34.9	36.8	35.4	35.3	12.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Federal govt.:								
Income taxes	bil.$	303.8	310.7	324.9	332.7	343.5	328.0	8.0
Corporate prof. tax accruals	bil.$	62.5	70.2	74.7	77.2	80.5	76.7	22.7
Surplus/deficit	bil.$	-125.7	-95.8	-90.4	-81.2	-74.3	-85.4	-32.0
State and local governments:								
Income taxes	bil.$	109.7	113.9	115.6	120.2	124.0	118.4	7.9
Corporate prof. tax accruals	bil.$	13.1	15.1	15.4	16.0	16.8	15.8	20.6
Surplus/deficit	bil.$	35.3	35.6	35.8	36.4	37.5	36.3	2.8

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.60 on page 19)

There are no essential changes in the forecast data for personal income and its components.

The projection of average weekly earnings shows that they will grow by approximately 4.2 per cent this year, 7.0 per cent in 1983 and 1984, 7.7 in 1985 and 7.8 per cent in 1986. However, when the KEDI's forecasts in the CPI are taken into account, there is hardly any gain in real purchasing power of average factory payrolls. One can also note on the more positive side that there are hardly any losses either. KEDI sees the CPI rate of change as being 6.5 per cent for this year, 7.2 in '83, 7.8 in '84, 7.9 in '85 and 8 per cent in 1986.

Yes, there is progress when compared with the 8-9 per cent increases in earnings in the 1979-81 years chipped away by the 10-12 per cent changes in the CPI. However, this Institute does not see any significant improvement that would bring about a more desirable combination of wages going up and inflation going down.

The forecast of after-tax profits has been somewhat reduced for 1983 and 1984 mainly due to the downward revision in profits of the oil, automobile, nonelectrical machinery, airlines, and the banking industries. KEDI's forecast of after tax profits shows that the over-all profits will be back at the 1981 level not earlier than in the year 1984. (See Table 1.60 on the following page.)

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2	3	4		(1)
Personal income	bil.$	2415.8	2510.5	2552.7	2597.8	2629.2	2572.6	6.5
Personal disposable income	bil.$	2029.1	2117.1	2151.5	2202.3	2281.7	2188.2	7.8
Compensation of employees	bil.$	1767.6	1819.9	1850.7	1867.8	1919.7	1864.5	5.5
Corporate after tax profits	bil.$	150.9	115.9	116.3	120.1	126.7	119.8	-20.6
Personal saving	bil.$	130.2	139.1	144.3	153.0	155.2	147.9	13.6
Average weekly earnings	$	316.8	320.5	328.1	332.4	338.8	330.0	4.2

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2572.6	2668.7	2704.6	2746.2	2807.5	2731.8	6.2
Personal disposable income	bil.$	2188.2	2300.4	2329.8	2380.6	2425.3	2359.0	7.8
Compensation of employees	bil.$	1864.5	1940.2	1983.8	2010.1	2043.8	1994.4	7.0
Corporate after tax profits	bil.$	119.8	131.2	133.5	141.2	149.4	138.8	15.8
Personal saving	bil.$	147.9	152.3	148.7	158.1	157.1	154.1	4.2
Average weekly earnings	$	330.0	341.2	352.0	357.8	361.2	353.1	7.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2731.8	2850.3	2919.8	2967.4	3018.4	2939.0	7.6
Personal disposable income	bil.$	2359.0	2469.4	2520.2	2557.5	2590.4	2534.4	7.4
Compensation of employees	bil.$	1994.4	2080.6	2150.2	2222.7	2550.3	2176.0	9.1
Corporate after tax profits	bil.$	138.8	153.6	157.8	160.2	165.1	159.2	14.6
Personal saving	bil.$	154.1	155.8	161.0	163.6	164.1	161.1	4.5
Average weekly earnings	$	353.1	369.9	374.4	379.7	384.9	377.2	6.8

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The Federal Reserve monetary and credit policy has been one of relaxation during this second half of 1982. That is exactly what KEDI has been forecasting since 1980. During 1983 and 1984 the projection is for a return to a more restrictive policy.

KEDI agrees with statements made by Fed representatives; namely, that the easing is an interim step. Paul Volcker noted that the Fed does not want to force interest rates any lower as they should fall with inflation. There are good prospects for some future reduction.

A leading FRB official mentioned that they have not returned to a policy of targeting the level of interest rates. That was abandoned as a policy in 1979.

This Institute predicted a year ago that the Federal Reserve Board would return to emphasizing M1 by the first part of 1983. The view of Phillip Braverman of Chase Manhattan expressed in October that the Fed would do just that, especially if the economy shows a bit of growth, reaffirms the forecast made here.

The projection of consumer installment credit has been increased a bit for the last quarter of this year and more significantly for 1983 and 1984 because of the increased forecast data for sales of consumer durables and mobile homes in that period. KEDI agrees with Chase Econometrics that a more substantial gain in consumer debt cannot be expected before the second quarter of 1983. The projection of commercial and industrial loans has been also increased a bit mainly due to the higher-than-previously anticipated demand for build-up of inventories in the second half of 1983 and throughout 1984.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2	3	4		
Currency and demand deposits,M1	bil.$	427.1	448.0	451.8	454.5	463.2	454.4	6.4
Time deposits, adjusted,M2	bil.$	1723.4	1851.1	1895.4	1912.8	1933.1	1898.1	10.1
Consumer instal. credit	bil.$	333.4	327.1	331.9	340.1	349.6	349.6	4.9
Commerc.& indus. loans at banks	bil.$	360.2	369.0	380.7	390.4	402.6	402.6	11.2
Large denomination time dep.	bil.$	295.4	307.7	322.4	328.9	330.9	322.5	9.2
Mortgages at S & L Assns.	bil.$	518.4	515.9	512.7	517.4	525.1	525.1	1.3

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits,M1	bil.$	454.4	468.5	476.8	485.8	495.9	481.8	6.0
Time deposits, adjusted, M2	bil.$	1898.1	1950.4	1995.3	2030.2	2077.9	2013.5	6.1
Consumer instal. credit	bil.$	349.6	353.7	358.9	367.4	375.0	375.0	7.3
Commerc.& indus. loans at banks	bil.$	402.6	408.5	413.2	421.5	429.8	429.8	6.8
Large denomination time dep.	bil.$	322.5	334.7	338.1	344.6	350.9	342.1	6.1
Mortgages at S & L Assns.	bil.$	525.1	530.1	535.6	546.2	548.7	548.7	4.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits,M1	bil.$	481.8	500.1	509.4	522.1	534.3	516.5	7.2
Time deposits, adjusted,M2	bil.$	2013.5	2008.9	2161.5	2219.9	2276.8	2166.8	7.6
Consumer instal. credit	bil.$	375.0	381.4	389.9	399.8	409.1	409.4	9.2
Commerc.& indus. loans at banks	bil.$	429.8	437.5	450.9	457.8	467.9	467.9	8.9
Large denomination time dep.	bil $	342.1	355.7	368.2	379.6	388.7	373.1	9.1
Mortgages at S & L Assns.	bil.$	548.7	557.8	569.4	578.9	588.4	588.4	7.2

*Historical data 1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

Since 1980, KEDI has been projecting lower interest rates in the latter part of 1982. Again, the forecast here has been confirmed by the downward moves that have recently taken place. For the last two years this Institute has expressed disagreement with those that kept harping to a line reminiscent of "The sky is falling. The sky is falling." The alarm went more like, "Interest rates will go up! Interest rates will go up!" Among those were Henry Kaufman of Salomon Brothers.

The declines in interest rates are reaching the bottom according to projections here. KEDI expects that the prime rate will not fall for much longer. There has been a revision here for the year-end rate which is now seen as close to 12.5 per cent instead of 13. Other short-term rates will not drop much more either. There is general agreement here with Treasury Secretary Regan that the prime rate will level in the 12 per cent range.

This Institute's forecast of long-term rates shows that government and corporate bond yields will not move down for much longer and will be stable in 1983. Continuous drops are anticipated for mortgage rates and consumer credit rates. KEDI agrees with D. Straszheim of Wharton Econometrics that mortgage rates will average 14.3 per cent at the beginning of 1983 and edge down more after that time. KEDI's forecast of the stock market remains essentially unchanged when compared with the previous projection.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982 1*	1982 2	1982 3	1982 4	1982	% (1)
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	9.65	9.72	11.04	-21.3
Prime rate	%	18.87	16.27	16.50	14.59	12.41	14.94	-20.8
Conventional mortgages rate	%	16.52	17.10	16.58	14.76	13.17	15.40	-6.8
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	12.91	14.03	-1.0
20 years Govt. bonds yield	%	13.72	14.27	13.80	13.24	13.18	13.62	-.7
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	115.83	126.31	1117.60	-8.2

Indicator	Unit	1982	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Treasury bills (3 mo) yield	%	11.04	9.81	10.02	10.63	11.27	10.43	-5.5
Prime rate	%	14.94	11.85	11.88	12.10	12.48	12.08	-19.1
Conventional mortgages rate	%	15.40	13.10	13.04	13.56	13.82	13.38	-13.1
Aaa corporate bonds rate	%	14.03	12.65	12.01	11.92	11.83	12.10	-13.8
20 years Govt. bonds yield	%	13.62	13.49	13.54	13.21	13.09	13.33	-2.1
Standard & Poor's 500 avg.	1941-43=100	117.60	124.31	123.95	121.67	122.51	123.11	4.7

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Treasury bills (3 mo) yield	%	10.43	11.12	11.23	11.90	12.15	11.60	11.2
Prime rate	%	12.08	12.32	11.98	12.14	12.59	12.26	1.5
Conventional mortgages rate	%	13.38	13.69	13.54	13.07	13.38	13.42	.3
Aaa corporate bonds rate	%	12.10	12.05	12.34	12.79	12.98	12.54	3.6
20 years Govt. bonds yield	%	13.33	13.19	13.45	13.74	13.66	13.51	1.4
Standard & Poor's 500 avg.	1941-43=100	123.11	124.58	125.50	126.25	123.80	124.78	1.4

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Change in Inventories in current dollars for the year 1981 (before the July 1981 revision) has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S.Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Change in Inventories, 1981, billions $)

Actual figure: 16.2

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	Actual minus Forecast 1/
Georgia State University	11/80	6.6	23	9.6
The First National Bank of Chicago	11/8/80	-6.0	24	22.2
Manufacturers Hanover Trust	11/12/80	-1.1	25	17.3
UCLA	12/80	7.4	27	8.8
Philadelphia National Bank	12/4/80	-3.7	28	19.9
Bankers Trust Company	12/10/80	9.2	30	25.4
Standard & Poor's	12/11/80	-10.0	31	26.2
Data Resources	12/28/80	-1.6	32	18.8
KEDI	12/30/80	17.6	33	-1.4
Fidelity Bank	12/31/80	15.5	34	.7
Morgan Guaranty	1/6/81	3.5	35	12.7
Chase Econometrics	1/7/81	.5	36	15.7
Equitable Life Assurance Society	1/9/81	6.3	37	9.9

1/ For example, Georgia State has forecast $6.6 billion, the actual figure is $16.2 billion so that the last column "Actual minus Forecast" records the difference which is $9.6 billion.

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

able No.	Data Series	Source
.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0. HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36

12/14/82 U2635-1 A

KEDI ECONOMIC SURVEY

DECEMBER 1982 ISSUE

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 6, December 1, 1982

KEDI ECONOMIC SURVEY

DECEMBER 1982 ISSUE

President: Dr. Vladimir Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 128200784
KEDI December 1, 1982

© Kent Economic and Development Institute

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE
December 1, 1982

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 2
1.03 ASSUMPTIONS 3

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 4
1.20 PRICES 8
1.30 EMPLOYMENT AND LABOR 10
1.41 HOUSING 12
1.42 AUTOMOBILES 12
1.50 BUDGETS 14
1.60 INCOME 16
1.70 MONEY AND CREDIT 18
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 20

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 22

4.00 HISTORICAL DATA SOURCES 25

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 5
1.10 REAL GROWTH 7
1.20 PRICES AND NOMINAL GNP 9
1.30 EMPLOYMENT AND LABOR 11
1.41 HOUSING 13
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 23

This forecast uses the November, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the November 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Although the last quarter of this year had been seen here as showing minor improvement in recent issues, the view is now that it will be more of the same low levels. However, slow growth will begin by the second quarter next year. REAL GROWTH The economy remains rather stuck. Any gains are fairly minute. 2.2 per cent growth is expected in 1983. PRICES Solving inflation has begun, but the increase in the rate in October was greater than that of the prior month. CPI changes are still in the 7-8 per cent range for each of the next few years. EMPLOYMENT The jobless rate went up more than had been expected here. It will start to edge down next year and average 9.7 per cent then in 1983. HOUSING Now, here is some mild good news amidst the morass of marginal moves both directions. Next year is seen as being about 28 per cent better than this year. Still the total of 1.3 million starts for 1983 as forecast here is below normal. AUTOS The sad condition of this industry will remain in the next year. BUDGETS The forecast for the Federal deficit is increased in this issue for fiscal '83 and '84. Do not panic. It does not mean the end of slow recovery, but anything close to a balanced budget would put us in reverse. INCOME Here, the increased wages adjusted for inflation point to slight declines in real wages through 1984. Corporate profits will be up nicely. MONEY AND CREDIT Forecast for 1983 shows increases in money supply above the Federal Reserve targets. INTEREST RATES Stable interest rates for 1983 are predicted.

1.02 OVERVIEW

During 1983 there will be growth. It will be at a low rate and not as bad as this year. KEDI forecasts the rate of change in the GNP as 2.6 per cent as an average for next year. In 1984, the pace will accelerate somewhat. Obviously, this Institute does not agree with the forecasters that look to no growth at all or a tiny bit of improvement.

As Louis Rukeyser pointed out in mid-November, there are aspects of the economy that we can appreciate rather than deprecate. First, is the lowering of the inflation rate. For the first time in many years, the rate has dropped dramatically. Given continuation of efforts that have helped lead to lower inflation currently, there is a real chance that this nation would not be faced with anything like double-digit price leaps in the near future.

Secondly, the steep slide of interest rates is playing a major role in the beginning of renewed growth. This will clearly help businesses and consumers and lead to more jobs.

It should also be remembered that the U.S. dollar has renewed strength. Any holiday traveler to England, for instance, will be pleased that due to the drop in the price of the pound, spending there gets about 25 per cent more for the dollar than it did about two years ago.

There is a danger. We could end up back in the abyss of depression if some politicians are heeded and the "second stage of the rocket" is set off too fast.

KEDI recommends that the Administration stick to cautiously restrictive monetary and credit policy. It is also important that the large Federal deficits be acknowledged and not fought tooth and nail (so-to-speak).

OVERVIEW

The deficits have been growing over the last few years and interest rates and inflation have gone down. There are those that keep saying they go up with higher deficits. It simply is not so. Any moves to drastically lower the deficit too quickly or alter fiscal policy could plunge us back into a real mess.

It is still viewed here that interest rates declines have reached a plateau. Stability will prevail next year.

The size of the deficit that had been forecast here for many months was almost a bullseye for fiscal 1982. It is still seen as larger in fiscal 1983.

It is true that joblessness is a major problem. The rate for November will be higher than ahd been forecast here. The problem will not be solved quickly. Calculations show that 5 billion dollars or more Federal program against the joblessness may significantly contribute to speeding up the resolution.

1.30 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No.3 and No.6 have been updated.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $34 per barrel; in 1984 it will go up to $37 per barrel; in 1985, to $40 per barrel; and in 1986, to $42 per barrel.

ASSUMPTIONS

2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 stabilizing is expected.
4. Increases in state and local taxation in 1982-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.
6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. in 1983 and in 1984. U.S. record crops are expected in 1985-1986.
7. Average rates of growth in 1982-1986 in the major industrial countries are anticipated: West Germany 3.0%; Japan 3.5%; Italy 2.4%, Great Britain 2.1%; France 2.7%.
8. No drastic changes in international relationships are assumed.

The December 1982 KEDI forecast is highlighted in Table 1.0 on page 5.

1.10 REAL GROWTH

(Table 1.10 on page 7)

The present situation is that the economy is stalled at a low level. There really isn't any real growth. Recent data confirm that stall.

1. In October, retail sales edged up by 0.6 per cent and preliminary data for November show only a small gain.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1476.9	1619.9	1676.6
Index of industrial production	1967= 100	151.0	139.1	165.1	172.9
Capacity utilization	%	78.5	69.9	76.1	77.6
Unemployment rate	%	7.6	9.7	7.8	7.6
Private housing starts	%	1.084	1.024	1.542	1.619
Car sales	mil.	8.6	7.8	8.7	8.8
Implicit GNP price deflator	1972= 100	195.5	207.3	253.1	269.6
Consumer price index	1967= 100	272.4	289.5	355.3	380.5
Producer price index*	1967= 100	269.7	280.2	349.7	375.9
Federal deficit	bil.$	-60.0	-137.6	-84.5	-58.9
Personal income	bil.$	2415.8	2571.6	3160.4	3443.1
Prime rate	%	18.87	14.89	11.43	12.47
Mortgage rate	%	16.52	15.43	12.92	13.36
Currency plus demand deposits	bil.$	427.1	456.1	557.0	597.1
Commercial and industrial loans	bil.$	360.6	401.0	497.4	426.8

* Finished goods

REAL GROWTH

2. According to the survey of buying agents, the economy is still in a downward move. The purchasing managers' composite index was at the same level in both September and October: 37.7 per cent. There are no signs of any significant upwards move of that index in November. Any level below 50 per cent is seen as an indication that the economy is declining.

3. The factory-use rate reported at 68.4 per cent was the worst on record. It has gone down 13 of the last 15 months. KEDI's forecast shows 67.3 per cent for the fourth quarter of this year and 68.2 per cent for the first quarter of 1983.

There are some indications the economy will lag at the start of next year and then grow slowly during 1983.

1. New orders went up in September and after a temporary decline in October they are expected to grow for the last two months of this year and in 1983. KEDI sees very slight gains continuing through the first part of next year. After that, it will translate into higher production and employment.

2. Housing starts and sales have improved. Indications point to more gains. (See Section 1.41).

3. Iron Age magazine reported that bookings for major steel producers were up slightly for December. Nearly exhausted inventories are cited as the main reason for the change.

The forecast shows the main improvements in 1983 will be in the following areas: chemicals, coal, stone, clay and glass, airlines,

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2*	3	4	1982	% (1)
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1478.4	1478.4	1480.2	1476.9	-1.7
Index of industrial product.	1967=100	151.0	141.6	139.2	138.2	137.3	139.1	-7.9
Unemployment rate	%	7.6	8.8	9.5	9.9	10.5	9.7	27.6
Capacity utilization rate	%	78.5	71.6	70.3	69.6	68.1	69.9	-11.0
Private housing starts	mil. units	1.084	.919	.958	1.104	1.114	1.024	-6.3
Car sales	mil. units	8.6	8.3	7.5	7.8	7.7	7.8	-9.4

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Gross national product,1972$	bil. 1972 $	1476.9	1484.3	1498.6	1516.8	1535.7	1508.9	2.2
Index of industrial product.	1967=100	139.1	139.6	143.5	146.7	150.1	145.1	4.3
Unemployment rate	%	9.7	10.3	9.9	9.4	9.2	9.7	.0
Capacity utilization rate	%	69.9	68.2	69.1	70.2	71.3	69.7	-.3
Private housing starts	mil. units	1.024	1.089	1.356	1.411	1.384	1.310	27.9
Car sales	mil. units	7.8	7.9	8.0	7.9	8.1	8.0	5.2

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product,1972$	bil. 1972 $	1508.9	1544.2	1558.3	1573.2	1590.7	1566.6	3.8
Index of industrial product.	1967=100	145.1	152.8	155.4	158.7	161.6	157.1	8.3
Unemployment rate	%	9.7	8.8	8.5	7.8	7.7	8.2	-5.5
Capacity utilization rate	%	69.7	72.5	74.3	75.7	76.2	74.7	7.2
Private housing starts	mil. units	1.310	1.390	1.422	1.503	1.484	1.450	10.7
Car sales	mil. units	8.0	8.3	8.4	8.5	8.6	8.5	6.2

[illegible] over previous year

housing-related industries, appliances, construction, plastics, textiles, and truck transportation. Steel, automakers, machine tools, machinery, and appliances will be better off than they have been recently but still far below anything normal.

1.02 PRICES

(Table 1.20 on page 9)

The forecast of consumer prices has been slightly reduced.

Percentage Change Over the Prior Year

	Current Issue	Prior Issue
1982	6.3	6.5
1983	7.0	7.2

The October rate was above the September rate and shows that the battle is not over. KEDI maintains its general prediction that inflation will flutter in the 7-8 per cent area from 1983-86 and then edge down more. Reasons for this forecast are, in part, due to the changes in four main areas of prices during the next three years.

Energy items: Average yearly gains of 7 per cent. Medical care: Average yearly increases of 9 per cent are seen. Prices of services: Gains of 8 per cent a year are predicted for the cost of entertainment, hotels, restaurants, and other services. Real estate and houses: It is forecast that these prices will move ahead at an average annual rate of 6-7 per cent. These four areas will be exerting upward pressure on the CPI constantly over the next few years. The forecast here of the PPI remains essentially the same. Major increases of prices of raw materials and supplies are not expected any earlier than 1984.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	 2*	 3	 4	1982	% (1)
Consumer price index,n.s.a.	1967=100	272.4	282.5	286.8	292.8	295.8	289.5	6.3
Producer price index,n.s.a.**	1967=100	269.7	277.2	278.2	281.2	284.0	280.2	3.9
Implicit GNP price deflator	1972=100	195.5	203.6	206.0	208.4	212.2	207.3	6.0
Gross national product	bil.$	2937.7	2995.5	3045.2	3080.6	3126.2	3061.7	4.2
Personal consump.expend.	bil.$	1843.2	1919.4	1947.8	1987.5	2005.4	1965.0	6.6
Gross private dom.investment	bil.$	471.5	414.8	431.5	441.3	453.1	435.1	-7.3

Indicator	Unit	1982	1983 1	 2	 3	 4	1983	% (1)
Consumer price index,n.s.a.	1967=100	289.5	301.3	305.8	312.8	317.9	309.5	6.9
Producer price index,n.s.a.**	1967=100	280.2	288.6	294.5	300.2	306.8	297.5	6.2
Implicit GNP price deflator	1972=100	207.3	214.9	218.5	221.0	225.0	219.9	6.1
Gross national product	bil$	3061.7	3189.7	3274.4	3352.1	3455.3	3318.0	8.4
Personal consump.expend.	bil.$	1965.0	2015.4	2075.8	2152.9	2208.7	2113.2	7.5
Gross private dom.investment	bil.$	435.1	468.6	472.4	493.1	510.6	486.2	11.7

Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Consumer price index,n.s.a.	1967=100	309.5	321.2	327.8	335.7	344.7	332.4	7.4
Producer price index,n.s.a.**	1967=100	297.5	311.5	316.7	324.9	334.8	322.0	8.2
Implicit GNP price deflator	1972=100	219.9	229.0	234.5	238.7	244.3	236.6	7.6
Gross national product	bil.$	3318.0	3536.2	3654.2	3755.1	3886.1	3707.0	11.7
Personal consump.expend.	bil.$	2113.2	2271.1	2290.4	2330.7	2380.7	2318.2	9.7
Gross private dom.investment	bil.$	486.2	519.7	537.2	550.8	565.1	543.2	11.7

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The unemployment rate reached 10.4 in October and is now seen as exceeding that in November. KEDI has not anticipated that it would go much above 10 per cent. Unemployment will peak this quarter and will start to edge down during 1983 and 1984.

Job losses in the last quarter of this year will center in the machinery, machine tools, autos, and related industries. The service industry will also see some losses.

Things will look up some in 1983. High employment is seen in the defense industry, electronics, high technology, food and kindred products, wholesale trade and retail trade, petroleum, and banking.
Significant improvement will take place in nonelectrical and electrical machinery, paper, chemicals, construction on public projects, trucking, airlines, textile, and apparel. Slight gains will occur in rubber and plastics, stone, clay and glass, mining, printing and publishing, furniture, appliances, machine tools, and real estate. Problems will still exist for steel, ferrous and nonferrous metals, automobiles, and farm machinery and equipment.

Unemployment rate is seen now as averaging 9.7 per cent this year as opposed to 9.5 per cent in the last issue. The rate in 1983 is now seen as 9.8 per cent as compared to 8.7 per cent in the November issue.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3	4		(1)
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.7	111.7	110.4	1.6
Employment	mil.	100.5	99.5	99.8	99.8	100.0	99.8	-.7
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.1	96.4	96.5	96.7	96.4	-.7
Unemployment rate	%	7.62	8.77	9.46	9.89	10.48	9.65	26.6

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.4	112.4	113.6	114.7	115.6	114.1	3.4
Employment	mil.	99.8	100.7	100.9	103.9	105.0	102.6	2.8
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.4	96.4	97.5	100.5	101.7	99.1	2.7
Unemployment rate	%	9.65	10.38	9.92	9.54	9.21	9.74	.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	116.7	117.4	118.2	119.5	118.0	3.4
Employment	mil.	102.6	106.4	107.4	108.9	110.3	108.3	5.6
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99,1	103.1	104.1	105.5	106.9	104.9	6.0
Unemployment rate	%	9.74	8.82	8.52	7.84	7.69	8.22	-15.6

1.41 HOUSING

(Table 1.41 on page 13)

Recent data are confirming the forecast here. Housing starts were up by 1 per cent in October to a seasonally adjusted annual rate of 1.112 million. Starts had climbed by 7.6 per cent in September. The October rate was over 30 per cent higher than the year-earlier pitiful level.

Starts of single-family houses increased by 1.3 per cent. Multifamily-unit starts edged up .5 per cent. New permits moved ahead in every region to reach an adjusted rate 60 per cent above the prior October.

KEDI is not quite as optimistic as the National Association of Realtors. They anticipate home sales will jump by 25 per cent to 2.5 million next year. A level of over two million is not foreseen here in the next few years.

The view of Allen Sinai of Data Resources that housing will recover some before the corporate sector is shared here. It won't be much of a recovery though. As Michael Evans indicated, even with mortgage rate chops, monthly payments would take about 30 per cent of disposable income as opposed to 20 per cent in the 1970's. This Institute agrees the high cost will prevent any significant rebound. Mortgage rates are expected to be around 11 per cent in 1983. That level, though improved over recent years is still high enough to prevent any real zip in fulfilled demand for housing.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast remains the same: cars are in the pits. No recovery is

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1 *	2 *	3	4	1982	% (1)
Single-family housing starts	mil.	.706	.586	.603	.638	.672	.625	11.5
Multifamily housing starts	mil.	.379	.333	.355	.476	.442	.402	6.1
Mobile home shipments	mil.	.241	.238	.246	.254	.251	.247	2.5
Permits authorized	mil.	.969	.832	.924	1.114	1.172	1.011	4.3
1-family unit** price, new	tho.$	83.1	80.8	85.9	92.0	96.7	88.9	7.0
1-family unit** price,existing	tho.$	78.0	79.2	80.8	83.0	86.8	82.5	5.8

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Single-family housing starts	mil.	.625	.658	.810	.847	.812	.777	24.3
Multifamily housing starts	mil.	.402	.431	.546	.584	.572	.533	32.6
Mobile home shipments	mil.	.247	.271	.296	.303	.321	.298	20.6
Permits authorized	mil.	1.011	1.037	1.185	1.326	1.314	1.216	20.3
1-family unit** price, new	mil.	88.9	98.2	101.7	102.9	105.1	102.0	14.7
1-family unit** price,existing	tho.$	82.5	89.1	91.9	94.8	97.6	95.6	15.9

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Single-family housing starts	mil.	.777	.794	.829	.867	.876	.842	8.4
Multifamily housing starts	mil.	.533	.596	.593	.636	.608	.608	14.1
Mobile home shipments	mil.	.298	.294	.321	.346	.309	.318	6.7
Permits authorized	mil.	1.216	1.278	1.376	1.397	1.331	1.346	10.7
1-family unit** price, new	tho.$	102.0	107.4	110.9	114.0	116.8	112.3	10.0
1-family unit** price,existing	tho.$	95.6	99.1	101.5	103.8	105.9	102.6	7.3

*Historical data (1) % change over previous year **Not seas. adjusted

AUTOMOBILES

in sight. Autos will not lead us to recovery. Other sectors are changing that historic role.

Even though new car sales gained 7.9 per cent in October over the prior year, it is a fact that 1981 was so bad that the level is still way below normal.

Ford will shut down its assembly plant in California. That is the ninth such operation to fall victim of the current slump. Auto production is around 55 per cent of capacity which is far below being profitable.

GM had six new assembly plants scheduled three years ago. Only one was completed. The others were cancelled or put on delays. GM also announced in November that it would eliminate a work turn at one plant and temporarily close two others.

In all, auto makers plan to close seven more plants to balance inventories.

KEDI still sees total car sales as being down by over 9 per cent this year to a level of 7.8 million and only picking up slightly next year to roughly 8 million. As can be seen in Table 1.42, 1984 will be a little better with sales in the 8.6 million range.

1.50 BUDGETS

(Table 1.50 on page 17)

The projection of the Federal budget deficit has been increased. This Institute was on the mark with its forecast of the fiscal 1982 deficit whereas many others were excessive in their estimates.

KEDI agrees with majority of forecasters that the 1983 fiscal deficit

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1 *	2 *	3	4		
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	7.8	7.8	-9.3
Domestic	mil.	6.3	6.0	5.5	5.5	5.5	5.6	-11.2
Imported	mil.	2.3	2.3	2.0	2.2	2.3	2.1	-8.7
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.7	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	5.3	4.9	-13.2
Light-duty truck sales	mil.	1.6	1.9	1.7	1.7	1.8	1.8	12.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	7.8	7.9	8.0	7.9	8.1	8.0	2.6
Domestic	mil.	5.6	6.1	6.0	6.0	6.3	6.1	8.9
Imported	mil.	2.1	1.8	2.0	1.9	1.8	1.9	-9.5
Dealers inventories**	mil.	1.4	1.7	1.6	1.4	1.4	1.5	7.1
Factory shipments**	mil.	4.8	5.6	5.8	5.5	6.1	5.8	20.8
Light-duty truck sales	mil.	1.8	1.7	1.8	1.9	1.9	1.8	.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.0	8.3	8.4	8.5	8.6	8.5	7.5
Domestic	mil.	6.1	6.6	6.7	6.9	6.9	6.8	11.5
Imported	mil.	1.9	1.7	1.7	1.6	1.7	1.7	-10.0
Dealers inventories**	mil.	1.5	1.5	1.5	1.4	1.6	1.5	.0
Factory shipments**	mil.	5.8	6.4	6.5	6.4	6.7	6.5	14.0
Light-duty truck sales	mil.	1.8	2.0	2.0	2.1	2.2	2.1	16.7

*Historical data (1) % change over previous year **Seas. not adjusted

will be in the $150 billion range. The 1984 total is now seen as being greater than the 1983 amount rather than less as was anticipated earlier.

Still, the red ink will not significantly reduce the capital formation of the private sector. Also, it will not cause higher interest rates. This is a view not shared by Martin Feldstein of the Council of Economic Advisers. Also, his view that the size of the deficit will also weaken the recovery as seen here as incorrect. As has been pointed out here in earlier issues, there are surpluses of funds elsewhere in the economy to fuel credit demands.

Events that have taken place in the latter half of this year show quite convincingly that a growing deficit does not cause interest rates to go up. The opposite has happened--contrary to what was anticipated by many economists.

As to state and local budgets, the forecast here is for fairly stable surpluses in the 1982-86 period in the $30-33 billion range.

1.60 INCOME

(Table 1.60 on page 19)

The forecast of average hourly pay and weekly earnings of U.S. factory workers remains about the same. A gain of 4.1 per cent is seen for this year and 7.0 per cent in 1983. Not until 1985 and 1986 are more significant improvements expected.

Looking at it in more realistic terms by adjusting for inflation, real wages will decline in the next two years and then edge ahead just barely.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1 *	2 *	3	4		(1
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	295.6	298.4	299.9	.6
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	49.4	52.3	48.1	-38.5
Surplus/deficit	bil.$	-60.0	-118.4	-119.6	-153.1	-155.8	-136.7	227.8
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	98.7	100.8	97.1	9.6
Corporate prof. tax accruals	bil.$	10.1	10.1	10.2	11.4	11.7	10.9	7.9
Surplus/deficit	bil.$	31.7	27.7	32.1	32.5	32.4	31.2	-1.6

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1
Federal govt.:								
Income taxes	bil.$	299.9	302.1	306.7	296.2	304.8	302.5	.9
Corporate prof. tax accruals	bil.$	48.1	54.6	61.3	67.8	72.3	64.0	33.1
Surplus/deficit	bil.$	-136.7	-147.3	-150.4	-162.7	-160.3	-155.2	13.5
State and local governments:								
Income taxes	bil.$	97.1	103.2	107.6	110.9	112.0	108.4	11.6
Corporate prof. tax accruals	bil.$	10.9	12.4	13.1	13.7	14.1	13.3	22.0
Surplus/deficit	bil.$	31.2	33.4	34.7	36.7	35.3	35.0	12.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1
Federal govt.:								
Income taxes	bil.$	302.5	309.6	322.7	330.6	340.8	325.9	7.
Corporate prof. tax accruals	bil.$.	64.0	73.7	76.8	79.5	83.1	78.3	22.
Surplus/deficit	bil.$.	-155.2	-140.2	-119.7	-99.4	-90.6	-112.4	-27.
State and local governments:								
Income taxes	bil.$	108.4	113.1	115.4	120.3	124.2	118.3	9.
Corporate prof. tax accruals	bil.$	13.3	15.0	15.6	16.2	16.9	15.9	19.
Surplus/deficit	bil.$	35.0	35.2	35.4	36.5	37.3	36.1	3.

*Historical data (1) % change over previous year

INCOME

1983. Real wages will represent 95 per cent of the 1982 level.

1984. Real wages will be at close to 97 per cent of the prior year.

1985. A bit of gain will show. The level will be 103 per cent of the 1984 pace.

1986. Another fractional increase is expected with wages being 104 per cent of the former year total.

The forecast of corporate profits is more optimistic. As KEDI predicted third quarter profits rose 2.4 per cent. That was the second consecutive gain. Profits are anticipated here to move ahead faster than the rate of inflation. KEDI projects a 10 per cent upward move in 1983, 12 per cent in 1984, 11 per cent in '85, and 10 per cent in 1986. This is not as high as the 15 per cent gain seen for 1983 by Mr.Lavery of Merrill Lynch, Pierce, Fenner & Smith. It certainly is not as high as the 25 per cent jump that Mr. Markowski of Sterling, Grace & Co. Indicates could take place.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The Federal Reserve has set up a target range for M1 of 2.5-5.5 per cent for the period from the fourth quarter of this year through the fourth quarter of next year. The target range for M2 is 6-9 per cent. KEDI data show that the money supply expansion will be around the upper targets. This Institute sees M1 as growing by 6 per cent and M2 slightly above the upper limit.

Consumer credit.The projection remains the same. The increase next year will be slight. It is assumed the Federal tax cut scheduled for

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3	4		
Personal income	bil.$	2415.8	2510.5	2552.7	2596.0	2627.3	2571.6	6.4
Personal disposable income	bil.$	2029.1	2117.1	2151.5	2201.7	2228.1	2174.6	7.2
Compensation of employees	bil.$	1767.6	1819.9	1850.7	1868.3	1910.3	1862.3	5.4
Corporate after tax profits	bil.$	150.9	115.9	116.3	119.1	123.3	118.7	-21.
Personal saving	bil.$	130.2	139.1	144.3	154.4	153.7	147.9	13.6
Average weekly earnings	$	316.8	323.4	331.6	333.4	336.9	331.3	4.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Personal income	bil.$	2571.6	2059.4	2690.8	2739.5	2801.4	2722.8	5.9
Personal disposable income	bil.$	2174.6	2254.1	2276.5	2332.4	2384.6	2311.9	6.3
Compensation of employees	bil.$	1862.3	1930.4	1971.2	1998.7	2031.5	1983.0	6.5
Corporate after tax profits	bil.$	118.7	126.1	130.2	137.5	142.1	134.0	12.9
Personal saving	bil.$	147.9	152.6	149.3	157.4	157.2	154.1	4.2
Average weekly earnings	$	331.3	339.7	350.4	356.2	358.1	351.1	6.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2722.8	2846.5	2911.3	2958.7	3011.6	2932.0	7.6
Personal disposable income	bil.$	2311.9	2423.8	2473.2	2507.8	2546.6	2487.9	7.6
Compensation of employees	bil.$	1983.0	2068.4	2136.2	2198.5	2524.1	2231.8	12.5
Corporate after tax profits	bil.$	134.0	149.7	153.4	156.1	161.2	155.1	15.7
Personal saving	bil.$	154.1	155.3	160.4	163.7	165.2	161.1	4.5
Average weekly earnings	$	351.1	367.6	372.7	376.5	383.2	375.0	6.8

MONEY AND CREDIT

July of next year will not have much impact on demand for consumer credit. Business loans. Here will be more activity. Such loans are expected to increase vigorously throughout the next two years. Mainly involved will be food, petroleum refining, mining, public utilities, and service industries. Mortgages. KEDI calculates that mortgage credit will expand by 4.7 per cent next year over the current year and 7.0 per cent between 1983 and 1984. Such a rate of change is in line with the anticipated performance of the housing industry. Savings and Loan Associations' share of total mortgage credit will expand in 1983 and following years.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

For about two years KEDI has been forecasting lower interest rates for the latter part of this year, and that forecast has been realized. Many economists found themselves projecting just the opposite as they often went by the simplistic view that higher Federal deficits mean higher interest rates.

The projection of interest rates and yields remains basically unchanged in this issue. Rates will stabilize and remain at about the same level throughout most of 1983. In the last quarter of that year some increase is expected.

The recent decline in the discount rate to 9 per cent is expected to last through December. There may be a bit more of a decrease in the first month of 1983. Slight additional declines in the prime and other

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*			1982		1982	%
			1*	2*	3	4		(1)
Currency and demand deposits,M1	bil.$	427.1	448.0	451.8	454.5	470.1	456.1	6.8
Time deposits, adjusted,M2	bil.$	1723.4	1851.1	1895.4	1941.3	1984.3	1923.0	11.6
Consumer instal. credit	bil.$	333 4	327.1	331.9	340.1	350.2	350.2	5.0
Commerc.& indus. loans at banks	bil.$	360.2	369.0	380.7	390.4	401.2	401.2	11.4
Large denomination time dep.	bil.$	295.4	307.7	322.4	328.9	330.9	322.5	9.2
Mortgages at S & L Assns.	bil.$	518.4	515.9	512.7	517.4	525.6	525.6	1.4

Indicator	Unit	1982			1983		1983	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	456.1	475.2	480.3	489.6	496.4	485.3	6.4
Time deposits, adjusted, M2	bil.$	1923.0	2008.6	2052.1	2082.3	2128.4	2067.9	7.5
Consumer instal. credit	bil.$	350.2	353.7	358.9	367.4	376.2	376.2	7.4
Commerc.& indus. loans at banks	bil.$	401.2	408.5	413.2	421.4	429.7	429.7	7.2
Large denomination time dep.	bil.$	322.5	334.3	338.0	344.2	350.6	341.8	6.0
Mortgages at S & L Assns.	bil.$	525.6	530.6	535.9	547.3	550.8	550.8	4.8

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	485.3	504.2	514.7	527.3	539.6	521.5	7.5
Time deposits, adjusted,M2	bil.$	2067.9	2179.6	2239.2	2268.7	2329.9	2254.4	9.0
Consumer instal. credit	bil.$	376.2	381.7	390.4	400.6	410.8	410.8	9.2
Commerc.& indus. loans at banks	bil.$	429.7	437.5	450.9	457.9	468.3	468.3	9.0
Large denomination time dep.	bil $	341.8	355.4	368.0	379.4	388.1	372.7	9.0
Mortgages at S & L Assns.	bil.$	550.8	559.4	571.6	580.7	591.3	591.3	7.3

INTEREST RATES, YIELDS, AND SECURITIES PRICES

short-term rates are anticipated here. KEDI looks to the prime rate as being in the 11-12 per cent range next year.

For a change of pace, this Institute agrees with Henry Kaufman of Salomon Brothers that the economy is in a state of immobility, and that there will be a bit more decline in interest rates.

The outlook here for prices of stocks and bonds is that they will be about stable next year with some increases of a mild nature toward the end of the year. As to stocks, the Dow Jones is seen as averaging 950-960 in the first part of 1983 and 970-980 in the last half. The Standard & Poor's 500 is seen in 124-26 and 126-130 range in the first and second half of next year, respectively.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Consumption Expenditures on Services in current dollars for the year 1981 (before the July 1981 revision) has been selecyed for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No. 3, March 1982 (U.S.Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. Table 2.0 on page 24 shows the predictions of forecasters and deviations of forecast data.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3	4		(1)
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	9.65	9.57	11.00	-21.6
Prime rate	%	18.87	16.27	16.50	14.59	12.14	14.89	-20.1
Conventional mortgages rate	%	16.52	17.10	16.58	14.76	13.27	15.43	-6.6
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	12.89	14.03	-1.0
20 years Govt. bonds yield	%	13.72	14.27	13.80	13.24	12.24	13.39	-2.4
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	113.82	126.43	117.16	-8.5

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	11.00	9.81	10.02	10.63	11.05	10.38	-5.6
Prime rate	%	14.89	11.36	11.85	12.01	12.48	11.93	-19.9
Conventional mortgages rate	%	15.43	13.08	13.04	13.42	13.79	13.33	-13.6
Aaa corporate bonds rate	%	14.03	12.58	12.01	11.92	11.83	12.09	-13.8
20 years Govt. bonds yield	%	13.39	12.68	12.71	12.98	13.10	12.87	-13.9
Standard & Poor's 500 avg.	1941-43=100	117.16	126.29	125.92	127.43	128.47	127.04	8.4

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	10.38	11.14	11.25	11.97	12.18	11.64	12.1
Prime rate	%	11.93	12.32	12.02	11.68	12.59	12.15	1.8
Conventional mortgages rate	%	13.33	13.29	13.22	12.91	13.09	13.13	-1.5
Aaa corporate bonds rate	%	12.09	12.05	12.34	12.79	12.98	12.54	3.7
20 years Govt. bonds yield	%	12.87	13.19	13.45	13.74	13.66	13.51	5.0
Standard & Poor's 500 avg.	1941-43=100	127.04	124.58	125.50	126.25	123.80	124.78	-1.8

[illegible] previous year

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Consumption Expenditures on Services, 1981, billions dollars)

Actual figure: 882.0

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
United California Bank	10/80	872.0	6	-1.1
George Gols, Arthur D.Little,Inc.	11/80	878.7	6	-.4
Albert T. Sommers, The Conference Board	11/20/80	914.0	8	3.6
Metropolitan Life	12/80	885.9	10	.4
U.S. Trust Company	12/80	898.0	12	1.8
Calvin R.Myers, The Merchants National Bank of Aurora	12/5/80	884.2	12	.2
United Business Service	12/8/80	860.0	14	-2.5
Walter D. Fackler, University of Chicago	12/8/80	890.0	14	.9
Robert J. Genetski, Harris Trust and Savings Bank	12/19/80	896.5	16	1.6
Georgia State	11/80	905.3	23	2.6
The First National Bank of Chicago	11/8/80	910.0	24	3.2
Manufacturers Hanover Trust	11/12/80	851.2	25	-3.5
Bankers Trust	12/10/80	905.7	30	2.7
Standard & Poor's	12/11/80	884.0	31	.2
KEDI	12/30/80	873.3	33	-.9
Fidelity Bank	12/31/80	910.0	34	3.2
Morgan Guaranty	1/6/81	884.1	35	.2
Chase Econometrics	1/7/81	875.6	36	.7

4.00 HISTORICAL DATA SOURCES

or the reader's convenience listed below are sources of historical ata series for the forecasts appearing in the Survey. The first col- mn of the following table refers to the table in this Survey, the econd column to the name of forecast series, and the third column dentifies the historical source. The sources are: *Survey of Current usiness* referred to as SCB (monthly, U.S. Department of Commerce, ashington, D.C.), *Federal Reserve Bulletin*, FRB, (Board of Governors f the Federal Reserve System, Washington, D.C., monthly), *Index of ndustrial Production*, G.12.3 Release, IIP, (Board of Governors of the ederal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

e No.	Data Series	Source
REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

ble 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

e No.	Data Series		Source
1 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
2 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
0 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
0 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
0 MONEY AND CREDIT	Currency and demand deposits,M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
0 INTEREST RATES,YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36

1/24/83 U2635-1A

KEDI ECONOMIC SURVEY

JANUARY 1983 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 7, January 1, 1983

KEDI ECONOMIC SURVEY

JANUARY 1983 ISSUE

President: Dr. Vladimir Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to:KEDI ECONOMIC SURVEY,Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent OH 44242, U.S.A. Kent State University Foundation, Inc.,and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 018300794
KEDI January 1, 1983

© Kent Economic and Development Institute

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE January 1, 1983

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 2
1.03 ASSUMPTIONS 5

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 6
1.20 PRICES AND NOMINAL GNP 13
1.30 EMPLOYMENT AND LABOR 18
1.41 HOUSING 20
1.42 AUTOMOBILES 22
1.50 BUDGETS 24
1.60 INCOME 26
1.70 MONEY AND CREDIT 28
1.80 INTEREST RATES,YIELDS,AND SECURITIES PRICES 30

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 32

4.00 HISTORICAL DATA SOURCES 34

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 7
1.10 REAL GROWTH 9
1.21 PRICES 14
1.22 NOMINAL GNP 16
1.23 DETAILED GNP 17
1.30 EMPLOYMENT NAD LABOR 19
1.41 HOUSING 21
1.42 AUTOMOBILES 23
1.50 BUDGETS 25
1.60 INCOME 27
1.70 MONEY AND CREDIT 29
1.80 INTEREST RATES,YIELDS,AND SECURITIES PRICES 31
2.00 COMPARISONS OF ACCURARY OF PREDICTIONS 33
3.00 HISTORICAL DATA SOURCES 34

This forecast uses the December, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the December 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

KEDI views 1983 as showing a very slight recovery after a flat first quarter. Growth for the year is projected in the 2 per cent range. While some sectors will have growth, others will remain stuck or decline a bit more, but in 1984 the recovery will be more evenly spread. REAL GROWTH Mixed news continues. Good news: housing, construction, factory orders, defense, car, and home sales showed gains. Grin-and-bear-it news: factory use rate, unemployment claims, and the IIP changes were not favorable. PRICES A revision here in the forecast as the inflation rate projected for 1983 is now lowered to 6.1 per cent. EMPLOYMENT It is not pleasant to report that joblessness will not decrease much in the next five years. Unemployment will average 9.9 during 1983 and won't reach a more "normal" 5.5 per cent until 1986. HOUSING Again, although a more normal level of housing starts will not be reached until 1986, there will be improvement in 1983 with total starts forecast at 1.4 million. AUTOS There is a small upward revision in the forecast here with total sales set at 8.3 million for 1983. Other good news, the foreign share of the market will edge down. BUDGETS Due to a change in assumptions, the deficit for fiscal 1983 is now seen in the $190 billion range. It will not curtail recovery or drive interest rates way up. INCOME Personal income will barely change in '83 when adjusted for inflation. Profits will be exceeded in 1983. MONEY AND CREDIT Money supply will grow above the Fed's targets, loans will gain, and installment credit will expand some. INTEREST RATES The prime rate will be in the 10.5-11.5 area for most of the year with slight increases in the latter part.

1.02 OVERVIEW

The current year, 1983, is now summarized as bringing us a VERY MODERATE RECOVERY.

-The first quarter will be essentially flat.

-During the second quarter there will be small increases.

-The last half of the year will show growth at a slightly better pace than the second quarter.

The majority of forecasters hold a similar general view for 1983. However, they can be divided into two groups.

GROUP I. Growth is seen in the 3 per cent range. In a comparison, this is can be called "faster." Members of the "fast lane" group are the Administration, Merrill Lynch Economics, University of Michigan, Wharton Econometrics, and the University of California.

Group II. Growth is seen by this data projection and hunch-bunch as in the 2 per cent area. (It is only by comparison that the above 3 per cent group seems fast. Not many years ago, both would be viewed as very slow, indeed.) Members of this group now include, KEDI, Chase Econometrics, Data Resources, Georgia State and Townsend-Greenspan.

In December, 1981, KEDI projected that there would be regular growth in all industries in 1983. Now, 1983 is not seen as having regular, generalized growth, but the latter part of the year will show gains. For 1984, the projection made over a year ago still stands. That is, "general expansion will be broader and more rapid in 1984." (KEDI Economic Survey, December 1981, page 1.)

OVERVIEW

This Institute agrees with Allan Greenspan in the following assessment: WE ARE NOT YET OUT OF THE RECESSION. ONE-HALF TO THREE-FOURTHS OF THE RECESSION IS OVER. That means the recession started in July of 1981 and is now 1½ years old. The conclusion here is that another half year or so remains of the recession before things will begin to definitely get better.

A year ago, in the December,1981, issue, the split or sectorized nature of the economy was cited. Defense was named as one of the areas that would show growth in 1982 while other sectors would be caught in the pit for most of the year such as construction and autos. That was the case in general for 1982. It is only now that housing and autos are just beginning to edge forward. Still they will not become the pillars of the economy that they once were. We are in a post-industrial society over half of which is comprised of the service sector.

During 1983, KEDI anticipates gradual improvements in mining, construction, and automobiles and continued strong performance in defense and related industries. That will contribute to modest, continuous growth accelerating in the latter part of the year when the recession will definitely abate.

However, the year will still be far from normal:

1. Auto sales: 8.3 million units as compared to a more normal 10 million.
2. Housing starts: 1.4 million units whereas 1.8-2 million has been seen as the standard pattern.

OVERVIEW

3. Unemployment: 9.8 per cent as compared to a more tolerable range of 5 per cent.
4. Capacity Utilization: 70 per cent versus the more acceptable rate of 85 per cent.

In 1983 inflation will continue to be kept at a fairly low level of 5.8-6.0 per cent. After a slight decline in the first quarter, interest rates will be flat with the prime rate around 10-11 per cent. That is, they will stabilize. Small gains will occur in the second part of the year.

KEDI does not share the optimism of some forecasters that expect consumers to significantly increase their spending in 1983 as compared to 1982. The projection here shows a 2.6 per cent expansion in consumer spending on durables, nondurables and services. (Population growth is seen as being about 1.2 per cent in 1983 over the prior year.)
The REASON: high unemployment and smaller increases in average wage rates will keep the spendable income at low levels.

In the broad view, there are two important weak spots in the area of developing the economy. These are business capital outlays and foreign trade.

This year, business capital outlays are seem as remaining flat with no significant increases in real terms. In fact, inflation adjusted outlays are projected here as being 0.5 per cent less in 1983 than in 1982. KEDI is not as pessimistic as the Administration which looks to a decline of almost 5 per cent. Foreign trade will begin to get in the red this year. The high international value of the dollar will stimulate more imports and depress exports. KEDI anticipates that the international value of the dollar will remain strong even though declining slightly toward the end of 1983.

Despite the foreign trade deficit, the U.S. international position will improve substantially. A significant gain of 40-50 per cent in surplus in the balance of payments for 1983 as compared to 1982 is expected.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No. 1 and No.6 have been updated.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $31 per barrel; in 1984 it will go up to $32 per barrel; in 1985, to $34 per barrel; and in 1986, to $35 per barrel.

2. It is expected that the Mid east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies

ASSUMPTIONS

will generally prevail in the 1982-1986 period. In the first half of 1983 some relaxation, and in the second half of 1983 stabilizing is expected.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1983 and following years.

6. In 1983 good harvest is assumed for this country and average production of crops is expected in the U.S.S.R. in 1983 and in 1984, U.S. record crops are expected in 1985-1986.

7. Average rates of growth in 1982-1986 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.4%, Great Britain 2.1%; France 2.7%.

8. No drastic changes in international relationships are assumed.

The January 1983 KEDI forecast is highlighted in Table 1.0 on page 7.

1.10 REAL GROWTH
(Table 1.10 on page 9)

As the economy continues in the doldrums, the news remains mixed. First, the data that point to a better 1983 will be outlined and then the news that contributes to the forecast of a flat first quarter.

Positive signs indicating that more general improvement is coming:

1. Factory orders. New orders for durable goods were up by 1.9

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1474.7	1622.7	1682.7
Index of industr. production	1967= 100	151.0	138.7	163.1	169.5
Capacity utilization	%	78.5	69.9	76.0	77.4
Unemployment rate	%	7.6	9.7	7.8	7.6
Private housing starts	mil.	1.084	1.073	1.540	1.607
Car sales	mil.	8.6	7.9	9.1	9.0
Implicit GNP price deflator	1972= 100	195.5	207.4	247.6	263.4
Consumer price index	1967= 100	272.4	288.9	350.9	376.2
Producer price index	1967= 100	269.7	280.2	344.2	369.7
Federal deficit	bil.$	-60.0	-144.3	-98.7	-67.6
Personal income	bil.$	2415.8	2571.1	3152.3	3367.8
Prime rate	%	18.87	14.85	11.51	12.35
Mortgage rate	%	16.52	15.41	12.86	13.14
Currency plus demand deposits	bil.$	427.1	456.2	559.4	595.7
Commercial and industr. loans	bil.$	360.6	400.9	497.8	527.3

*Finished goods

per cent in November. That is significant as there was not much help during the month from housing or autos. KEDI forecasts that durable orders will increase throughout the year. Still, the average monthly level forecast of $75 billion is below a more normal rate of $85 billion.

2. Orders for consumer durables. These went up by an annual rate of 2 per cent in November. For 1983, such orders are seen as being in the $80 billion range versus a more typical $90 billion. It is a good sign that orders went up most for electrical machinery, i.e., appliances.

3. New Construction. The value of new construction reached a 10-month high by jumping 16 per cent in November. KEDI predicts a total of $162 billion this year which is still below a more adequate rate of $180 billion.

4. Housing Starts. Improvement here is sound and will continue being greatly aided by the decline in interest rates. The November gain was very encouraging. Still the forecast at this Institute of 1.4 million units is about 20 per cent below more normal rates.

5. Defense and Space Equipment. These continued strong in November. The Index of Industrial Production for Defense Equipment was at 112.1 that month. The 1981 average was 102.7 and it is likely to be 108.8 in 1982. For 1983, this Index is seen as averaging 114.9 by KEDI.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1478.4	1478.4	1471.2	1474.7	-1.9
Index of industrial product.	1967=100	151.0	141.6.	139.2	138.2	135.6	138.7	-9.2
Unemployment rate	%	7.6	8.8	9.5	9.9	10.7	9.7	27.6
Capacity utilization rate	%	78.5	71.6	70.3	69.6	68.1	69.9	-11.0
Private housing starts	mil. units	1.084	.919	.958	1.114	1.302	1.073	-1.1
Car sales	mil. units	8.6	8.3	7.5	7.8	8.0	7.9	-8.1

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1474.7	1481.2	1493.2	1510.7	1530.7	1504.0	2.0
Index of industrial product.	1967=100	138.7	137.1	140.4	145.6	149.6	143.2	3.2
Unemployment rate	%	9.7	10.6	10.1	9.8	9.4	9.9	2.1
Capacity utilization rate	%	69.9	68.9	70.3	71.8	73.4	71.1	1.7
Private housing starts	mil. units	1.073	1.116	1.405	1.479	1.443	1.361	28.6
Car sales	mil. units	7.9	8.2	8.3	8.1	8.4	8.3	5.1

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1504.0	1540.2	1553.7	1569.4	1583.8	1561.8	3.8
Index of industrial product.	1967=100	143.2	150.1	154.3	158.2	162.8	156.4	9.2
Unemployment rate	%	9.9	9.2	9.1	8.5	8.2	8.8	-11.9
Capacity utilization rate	%	71.1	74.2	74.9	75.9	76.4	75.4	6.0
Private housing starts	mil. units	1.361	1.389	1.438	1.546	1.480	1.464	7.6
Car sales	mil. units	8.3	8.6	8.7	8.8	8.9	8.8	6.0

*Historical data (1) % change over previous year

REAL GROWTH

6. Car Sales. These were up slightly toward the end of 1982. The projection is that they will increase by about 5 per cent during 1983. That will still leave them below more standard levels.

7. Sales of New Homes. These jumped ahead in November. (The reader is referred to Table 1.41 and Section 1.41). The annual rate reached in November is not terribly far removed from a more normal rate.

8. The Index of Leading Indicators. This climbed by 0.8 per cent in November. It is not a very reliable tool as it has been climbing for about six months and the recession has remained with us.

Now for the Negative News.

1. Factory Utilization Rate. It was at 68 per cent in November. The forecast here remains bleak. A slight improvement--quite slight--is foreseen in 1983 as that rate should be about 71 per cent.

2. Claims on unemployment insurance benefits. These went up in December. The forecast here for 1983 shows only a gradual decline

3 Retail sales. These did move ahead in December, but not by much. The projection by KEDI is that they will increase close to 4.5 per cent in 1983. That is not a big gain.

REAL GROWTH

4. The Index of Industrial Production. This declined in November by 0.4 per cent. It is expected to decrease 0.6 per cent in December. Overall, KEDI sees the change in the index as being downward in 1982 by a total of 9.2 per cent. In contrast, during the current year, there is a gain anticipated here of 3.2 per cent over the prior year--barely any gain at all if one looks from the perspective of 1980.

5. Altogether, the news and the forecast data point to a repeat of mixed developements through the first quarter of 1983. The positive will outweigh the negative in the second part of the year.

The outlook for some major industries is presented here.

MINING.

The main improvement will be in coal mining. The IIP in 1982 is seen in the 136.3 area and for 1983 that index is forecast at 145.7 -- a gain of 1.9 per cent for coal. (KEDI had expected coal to improve in 1982 as of the forecast a year ago, but that development did not get fueled.) The IIP for metal mining and stone and earth minerals will only improve slightly at rates of 4.5 and 5.2 per cent respectively during 1983.

NONDURABLE MANUFACTURES

The main increases here will be in food processing, up 4.8 per cent in 1983 over 1982; paper and products, a gain of 4.7; rubber and plastics, edging ahead by 3.4 per cent;, and chemicals and products, up just 3.1 per cent.

REAL GROWTH

DURABLE MANUFACTURES

Here, main improvements are seen for Ordnance and accessories , which will continue to perform quite nicely as KEDI projects a 10.2 per cent increase in production this year over 1982. Improvements are seen for electrical machinery, (especially appliances) will go up 3.8 per cent. Lumber and products, and furniture and fixtures will increase by 4.2 per cent.

Primary metals, fabricated metal products, and non-electrical machinery will not show much improvement. So-called normal steel shipments are around 90 million tons. Well in 1982, that total was in the 60 million ton range. The forecast for this year is 66 million. Some gain but still on the low side in total. Production of nonelectrical machinery is expected to grow by a modest 2 per cent.

In the transportation equipment group, the main improvements are expected in instruments and miscellaneous manufactures: up 8 and 6 per cent respectively.

TRANSPORTATION

During 1983 railroad freight hauled will grow by 4.7 per cent. Trucking transportation will expand at a slower rate of 2.8 per cent.

TRADE

Wholesale and retail trade will remain on the okay side. They have not been terrific in 1982. Expansion here will be approximately 3 per cent.

REAL GROWTH

BANKING AND REAL ESTATE

The KEDI forecast is optimistic for 1983. Banking and financial intermediaries will perform better than they had in 1982. The earnings forecast for both industries show a leap of about 10 per cent in profits in 1983 when compared to 1982.

CONSTRUCTION

In this Institute's forecast construction belongs to the main winners in 1983. Output will grow by 21 per cent with public construction up 17 per cent, housing, 22 per cent, and office building increasing 14 per cent when compared to the 1982.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 14)

The forecast of the inflation rate for this year and last year has been reduced. The figures for this issue and the last issue are given here in terms of changes in the CPI.

% changes in the CPI over previous years

	December'82 Forecast	January'83 Forecast
1982	6.3	6.0
1984	6.9	6.1
1984	7.4	6.9

Consumer prices rose by only 0.1 per cent in November. In 1981 inflation was at 8.9 per cent. Before adjustment the index in November was at 293.6. That meant that goods and services that cost $100 in

1.21 PRICES
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3 *	4		
Consumer price index,n.s.a.	1967=100	272.4	282.5	286.8	292.8	293.5	288.9	6.0
Producer price index,n.s.a.**	1967=100	269.7	277.2	278.2	281.2	284.0	280.2	3.9
Price deflators:								
GNP	1972=100	195.5	203.6	206.0	208.4	211.0	207.4	6.1
Personal cons. expenditures	1972=100	194.5	202.2	204.0	207.7	210.1	206.0	5.9
Gross private dom. investment	1972=100	184.3	212.3	213.3	214.8	216.2	214.2	16.2
Federal purchases	1972=100	207.4	218.3	221.6	222.9	225.3	222.0	7.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	288.9	297.2	302.3	309.6	316.9	306.5	6.1
Producer price index,n.s.a.**	1967=100	280.2	288.4	294.3	299.6	306.1	297.1	6.1
Price deflators:								
GNP	1972=100	207.4	212.3	216.5	219.2	222.2	218.1	5.2
Personal cons. expenditures	1972=100	206.0	212.1	215.9	218.2	220.6	216.7	5.2
Gross private dom. investment	1972=100	214.2	219.5	218.9	222.3	225.4	222.0	3.7
Federal purchases	1972=100	222.0	229.3	232.5	235.5	240.1	234.4	5.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	306.5	318.2	324.5	330.2	337.5	327.6	6.9
Producer price index,n.s.a.**	1967=100	297.1	311.0	316.4	324.8	330.5	320.7	7.9
Price deflators:								
GNP	1972=100	218.1	224.7	228.7	234.4	242.9	232.7	6.7
Personal cons. expenditures	1972=100	216.7	223.1	227.5	234.0	240.1	231.2	6.7
Gross private dom. investment	1972=100	222.0	228.4	231.8	236.9	241.1	234.6	5.7
Federal purchases	1972=100	234.4	244.0	248.8	252.4	256.8	250.5	6.9

*Historical data (1) % change over previous year **Finished goods

1967 cost $293.6 in the eleventh month of 1982. (Roughly speaking, if your pay did not at least **triple** in 15 years, you are barely even by this measure.)

In 1983, it is expected here that the following price gains will take place: food prices, up by just 3.5 per cent and that will be mainly in meat and dairy products. Prices for apparel will gain by 3.7 per cent, energy items by 7 per cent, houses by 8 per cent, and services by 10.2 per cent.

Producer prices. Indications of recovery are seen in the raw materials prices which are sensitive to any rebound in demand. They moved ahead by 0.9 per cent in November. That was the first increase in that category in six months.

The forecast for the producer price index remains essentially the same. In 1983, the price increases will be concentrated on the raw materials component of the index: metals, nonmetallic ores, natural gas, rubber, wood and clay, earth and stone minerals. As far as agricultural raw materials are concerned and raw steel, prices will remain flat.

1.22 NOMINAL GNP

(Tables 1.22 and 1.23 on pages 16 and 17)

The forecast of the nominal GNP and Components shows the fastest growing part will be the public sector; namely, the Federal Government. Its expenditures will grow by 8 per cent and State and local

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3 *	4		(1)
Gross national product	bil.$	2937.7	2995.5	3045.2	3088.2	3103.6	3058.1	4.1
Personal cons. expenditures	bil.$	1843.2	1919.4	1947.8	1986.3	2021.5	1968.8	6.8
Gross private dom. investment	bil.$	471.5	414.4	431.5	443.3	424.2	428.5	-9.1
Net exports	bil.$	26.1	31.3	34.9	6.9	-4.3	17.2	-34.1
Government purchases:								
Federal	bil.$	228.9	249.7	244.3	259.0	265.6	254.6	11.2
State and local	bil.$	368.0	380.4	386.6	392.7	396.6	389.1	5.7

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	3058.1	3144.6	3232.8	3311.5	3401.2	3272.5	7.3
Personal cons. expenditures	bil.$	1968.8	2038.6	2097.0	2136.7	2181.5	2113.4	7.3
Gross private dom. investment	bil.$	428.5	445.7	465.5	484.7	508.3	476.0	11.1
Net exports	bil.$	17.2	-15.2	-23.8	-25.4	-30.4	-23.7	-
Government purchases:								
Federal	bil.$	254.6	272.7	281.3	291.5	302.9	281.7	12.8
State and local	bil.$	389.1	402.8	412.8	424.0	438.3	419.5	7.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3272.5	3460.8	3554.0	3679.3	3793.7	3622.0	10.7
Personal cons. expenditures	bil.$	2113.4	2204.3	2268.4	2345.4	2429.5	2311.9	9.4
Gross private dom. investment	bil.$	476.0	514.7	521.3	524.2	532.3	523.1	9.8
Net exports	bil.$	-23.7	-16.2	-14.5	2.8	2.7	-6.3	-
Government purchases:								
Federal	bil.$	281.7	310.4	320.6	333.4	345.9	327.6	14.1
State and local	bil.$	419.5	447.6	458.2	473.5	483.3	465.7	11.0

*Historical data (1) % change over previous year

1.23 DETAILED NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates. In billions of current $.)

Indicator	1982 4	1982 Annual	1983 1	2	3	4	1983 Annual
Gross national product	3103.6	3058.1	3144.6	3232.8	3311.5	3401.2	3272.5
Personal cons. expenditures	2021.5	1968.8	2038.6	2097.0	2136.7	2181.5	2113.4
Durables	241.3	240.0	242.7	251.6	259.6	268.4	255.6
Nondurables	788.6	763.4	789.6	806.0	815.7	824.6	809.0
Services	991.6	965.4	1006.3	1039.4	1061.4	1088.5	1048.8
Gross private dom. investm.	424.2	426.2	445.7	465.5	484.7	508.3	476.0
Structures	139.0	141.3	137.5	141.7	146.7	151.4	144.3
Equipment	201.6	206.7	200.8	205.3	212.9	225.5	211.1
Resid.investm.	100.4	96.7	101.7	106.7	114.5	118.5	110.4
Nonfarm	94.6	90.8	96.3	100.7	108.0	111.6	104.2
Invent.change	-16.8	-16.5	5.7	11.8	10.6	12.9	10.3
Net exports	-4.3	26.8	-15.2	-23.8	-25.4	-30.4	-23.7
Exports	346.1	367.1	346.6	345.9	351.3	355.2	349.8
Imports	350.4	340.3	361.8	369.7	376.7	385.6	373.5
Federal purch.	265.6	253.1	272.7	281.3	291.5	302.9	287.1
State and local purchases	396.6	387.0	402.8	412.8	424.0	438.3	419.5

governments by 6 per cent. The KEDI forecast for 1983 also looks to a slight inventory buildup, mainly in the retail trade area during the second part of the year. Foreign trade. The forecast here shows U.S. exports stagnating while imports go up, as was mentioned in the prior section. The expected red ink of the U.S. foreign trade will keep increasing. The total gap in 1983 will be about $23 billion as compared to a surplus of $28 billion in 1982.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 19)

KEDI's forecast of the unemployment rate has been slightly increased in this issue for the 1983-1986 period. (See Table 1.30). Unfortunately, the jobless rate will remain uncomfortably high during the next few years. A more normal rate of approximately 6.8 per cent is projected for 1987.

Martin Feldstein's view that we are near a peak with unemployment that was 10.8 per cent in November by official measure is shared here. However, the view he has that the jobless rate will stay above 7 per cent for the next five or six years is not shared here.

The industries that will increase in employment in 1983 are presented in percentage increase terms in numbers of employees in 1983 over the prior year, (including new and recalled persons):

Construction, 15 per cent; lumber and wood, 6; steel 12; autos 14 per cent; textiles, 8; paper and products, 9; chemicals, 12;

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1 *	2 *	3*	4		
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.7	111.7	110.4	1.6
Employment	mil.	100.5	99.5	99.8	99.8	99.9	99.8	-.7
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.1	96.4	96.5	96.6	96.4	-.7
Unemployment rate	%	7.62	8.77	9.46	9.89	10.67	9.70	27.3

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.4	112.4	113.6	114.7	115.6	114.1	3.4
Employment	mil.	99.8	100.5	102.1	103.5	104.7	102.7	2.9
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.4	97.2	98.7	100.1	101.4	99.4	3.1
Unemployment rate	%	9.70	10.58	10.14	9.76	9.43	9.98	2.9

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	116.7	117.4	118.2	119.5	118.0	3.4
Employment	mil.	102.7	106.0	106.7	108.1	109.3	107.5	4.7
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.4	102.9	102.6	104.7	106.0	104.1	4.7
Unemployment rate	%	9.98	9.18	9.08	8.51	8.19	8.74	-12.4

*Historical data (1) % change over previous year

rubber and plastics, 11; clay, glass and stone products, 8 per cent; and electrical machinery, 8 per cent.

In KEDI's projection, the average workweek of manufacturing production workers in 1983 is expected to stabilize at 36.0 in the first part of the year. In the second half, it will edge up to 36.6.

1.41 HOUSING

(Table 1.41 on page 21)

The forecast at this Institute remains the same. For 1983, the number of total starts is seen as 1.4 million. Recently released data confirm the forecast.

Housing starts zoomed by 26.5 per cent in November to the highest rate they had been in about two years. The seasonally adjusted annual rate was at 1.43 million units. The sales of new houses jumped by 12 per cent. The sales price of a new house averaged $88,600. (The median price was $74,200 for all houses sold.) Resales of previously owned homes were up 8.8 per cent in November.

The housing industry is moving up in line with the KEDI projection. The decline in interest rates that also was anticipated here has been an impetus. However, a more normal level of 1.8-2.0 million starts will not be achieved before 1986. KEDI agrees with the analysis of the National Association of Home Builders, that the present capacity of the housing industry is 1.4-1.5 million units.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3 *	4		(1)
Single-family housing starts	mil.	.706	.586	.603	.638	.842	.667	-5.5
Multifamily housing starts	mil.	.379	.333	.355	.476	.460	.406	7.1
Mobile home shipments	mil.	.241	.238	.246	.254	.250	.247	2.5
Permits authorized	mil.	.969	.832	.924	1.114	1.179	1.012	4.4
1-family unit** price, new	tho.$	83.1	80.8	85.9	92.0	96.9	88.9	7.0
1-family unit** price,existing	tho.$	78.0	79.2	80.8	83.0	87.0	82.5	5.8

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.667	.682	.856	.891	.864	.823	23.4
Multifamily housing starts	mil.	.406	.434	.549	.588	.579	.538	32.5
Mobile home shipments	mil.	.247	.272	.297	.305	.321	.299	21.0
Permits authorized	mil.	1.012	1.039	1.186	1.327	1.316	1.217	20.3
1-family unit** price, new	mil.	88.9	98.4	101.9	103.4	105.5	102.3	15.1
1-family unit** price,existing	tho.$	82.5	89.1	92.1	95.2	98.1	93.7	13.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.823	.798	.834	.915	.891	.860	4.5
Multifamily housing starts	mil.	.538	.591	.604	.631	.589	.604	12.3
Mobile home shipments	mil.	.299	.294	.322	.347	.304	.317	6.0
Permits authorized	mil.	1.217	1.283	1.372	1.391	1.320	1.342	10.3
1-family unit** price, new	tho.$	102.3	107.5	111.2	114.1	116.7	112.4	9.9
1-family unit** price,existing	tho.$	93.7	99.4	102.3	104.7	107.2	103.4	10.4

*Historical data (1) % change over previous year **Not seas. adjusted

HOUSING

Mortage rates and house prices are still beyond the means of millions of American families. The low level of the economy and the high rate rate of unemployment also contribute to the below-normal forecast for housing. Still, improvement is there and more is to come.

1.42 AUTOMOBILES

(Table 1.42 on page 23)

The projection for 1983 for cars and light trucks has been increased when compared with previous forecasts. During the current year, 8.3 million cars and 2 million light trucks are expected to be sold whereas the earlier forecast called for 8.0 and 1.8, respectively. Still, the performance foreseen is well below more normal total car sales of 10 million. A level of that nature has not been seen in many years, and KEDI does not even expect 10 million in yearly car sales until perhaps 1988--if then.

As to the forecast for market shares, this Institute expects that for domestic automakers, GM will have a gradual decline, Ford will be close to stable, and Chrysler and AM will have slight gains in 1983.

Percentage Shares of the Passenger Car Market
(By Company and Year)

Company	1982	1983	1984
General Motors	61.1	60.0	58.7
Ford	22.9	23.1	23.3
Chrysler	12.1	12.9	13.9
American Motors	2.2	2.4	2.6
Volkswagen	1.7	1.6	1.5
	100.0	100.0	100.0

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3*	4		(1)
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	8.0	7.9	-8.1
Domestic	mil.	6.3	6.0	5.5	5.5	5.7	5.7	-9.5
Imported	mil.	2.3	2.3	2.0	2.2	2.3	2.1	-8.7
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.7	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	5.5	4.9	-13.2
Light-duty truck sales	mil.	1.6	1.9	1.7	1.7	1.9	1.8	12.5

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	7.9	8.2	8.3	8.1	8.4	8.3	5.1
Domestic	mil.	5.7	6.3	6.3	6.2	6.6	6.3	10.5
Imported	mil.	2.1	1.9	2.0	1.9	1.8	2.0	-4.8
Dealers inventories**	mil.	1.4	1.7	1.6	1.4	1.5	1.6	14.3
Factory shipments**	mil.	4.9	5.8	5.9	5.6	6.3	5.9	21.0
Light-duty truck sales	mil.	1.8	1.8	2.1	2.0	1.9	2.0	11.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.3	8.6	8.7	8.8	8.9	8.8	6.0
Domestic	mil.	6.3	6.8	7.0	7.1	7.1	7.0	11.1
Imported	mil.	2.0	1.8	1.7	1.7	1.8	1.8	-10.0
Dealers inventories**	mil.	1.6	1.6	1.7	1.6	1.6	1.6	.0
Factory shipments**	mil.	5.9	6.6	6.9	6.7	6.8	6.8	15.3
Light-duty truck sales	mil.	2.0	2.1	2.4	2.3	2.2	2.3	15.0

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS
(Table 1.50 on page 25)

The forecast of the Federal deficit for fiscal 1983 has been increased by approximately $20 billion since the last issue of this survey and it is now close to $190 billion. The reason for the change is that KEDI had anticipated that there would be approval for the additional $26 billion president Reagan wanted cut from the budget. Now, there are strong indications, that this cut will not take place, so it has been dropped here as an assumption.

This Institute MAINTAINS its projection showing large federal deficits will not significantly reduce the capital formation in private sectors. Despite the deficit, there are various sources of funds in other sectors available for financing, so upward pressure on interest rates will not get out of hand. The size of the deficit will not weaken the recovery.

Data have already shown the lack of a direct relationship between the interest rates and the size of the deficit. For instance, in the last half-year, the deficit was going up and interest rates had been going down--quite the opposite of the assertions of many economists.

KEDI maintains the position that the deficits should be eliminated, but not at the time of a recession. In recessions, cutting expenses and raising taxes likely lead to the opposite result: the economy gets sicker and the deficits loom larger. The time to face the deficit and reduce it is when the economy is well removed from the recession doldrums and recovery is continuing but not before such a time.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	295.6	297.1	299.6	.5
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	49.8	50.2	47.7	-29.1
Surplus/deficit	bil.$	-60.0	-118.4	-119.6	-156.0	-180.1	-144.3	240.1
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	98.8	99.8	96.9	9.4
Corporate prof. tax accruals	bil.$	10.1	10.1	10.2	10.2	11.3	10.7	5.9
Surplus/deficit	bil.$	31.7	27.7	32.1	32.3	32.1	31.1	-2.0

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	299.6	302.0	306.8	298.1	305.0	303.0	1.1
Corporate prof. tax accruals	bil.$	47.7	53.8	61.6	67.9	72.4	63.9	34.0
Surplus/deficit	bil.$	-144.3	-189.8	-196.3	-204.1	-180.4	-192.7	33.5
State and local governments:								
Income taxes	bil.$	96.9	103.3	107.7	111.0	112.2	108.6	12.1
Corporate prof. tax accruals	bil.$	10.7	12.2	13.2	13.7	14.3	13.4	25.2
Surplus/deficit	bil.$	31.1	33.1	34.8	36.6	35.4	35.0	12.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	303.0	309.7	322.9	330.8	339.4	325.7	12.2
Corporate prof. tax accruals	bil.$	63.9	73.8	76.9	79.6	83.0	78.3	22.3
Surplus/deficit	bil.$	-192.7	-161.2	-145.6	-127.1	-117.4	-137.8	-28.5
State and local governments:								
Income taxes	bil.$	108.6	113.2	115.6	120.9	124.3	118.5	9.1
Corporate prof. tax accruals	bil.$	13.4	15.1	15.8	16.4	17.0	16.1	20.1
Surplus/deficit	bil.$	35.0	35.3	35.6	36.4	37.2	36.1	3.1

*Historical data (1) % change over previous year

BUDGETS

KEDI is in general agreement with Lester C. Thurow (Newsweek, December 20, 1982 page 70.) that cutting social programs or hikes in taxes would create a spiral of lower take-home pay, less buying, and less production which leads to less employment and then to bigger red-ink totals as tax receipts move down.

The projection of state and local budgets, has been very slightly changed when compared with previous forecasts as surplus levels forecast are fractionally reduced.

1.60 INCOME

(Table 1.60 on page 27)

Personal income in 1983 will grow by 6.0 per cent and personal disposable income by 6.2 per cent when compared with 1982. Adjusted by the expected rate of inflation and the population growth, it will hardly change. The projection shows that the share of compensation of employees of personal income will be declining and transfer payments will be increasing.

The profits outlook is brighter. KEDI projects profits will expand an average of 11 per cent after taxes. That is fairly close to the projection of Data Resources. Profits will grow by about 9 per cent according to their forecast. However, KEDI is nowhere near as optimistic as some forecasters that look to a boom of 25 per cent. That is just too much wistful thinking--for sure.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*			1982		1982	%
			1*	2*	3*	4		(1)
Personal income	bil.$	2415.8	2510.5	2552.7	2592.5	2628.5	2571.1	6.4
Personal disposable income	bil.$	2029.1	2117.1	2151.5	2198.1	2230.0	2174.2	7.2
Compensation of employees	bil.$	1767.6	1819.9	1850.8	1868.3	1884.2	1855.8	5.0
Corporate after tax profits	bil.$	150.9	115.9	116.3	119.4	118.9	117.6	-20.1
Personal saving	bil.$	130.2	139.1	144.3	152.0	153.8	147.3	13.1
Average weekly earnings	$	316.8	323.4	331.6	333.1	336.2	331.1	4.5

Indicator	Unit	1982			1983		1983	%
			1	2	3	4		(1)
Personal income	bil.$	2571.1	2569.2	2698.7	2740.6	2796.8	2723.8	5.9
Personal disposable income	bil.$	2174.2	2253.9	2284.2	2331.5	2379.6	2312.3	6.4
Compensation of employees	bil.$	1855.8	1909.5	1954.3	1964.8	2012.7	1960.3	5.6
Corporate after tax profits	bil.$	117.6	122.5	127.1	130.5	133.5	128.4	9.2
Personal saving	bil.$	147.3	152.2	149.5	157.4	156.1	153.8	4.4
Average weekly earnings	$	331.1	339.6	350.2	356.0	357.8	350.9	6.0

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Personal income	bil.$	2723.8	2843.9	2898.2	2959.2	3010.7	2928.0	7.5
Personal disposable income	bil.$	2312.3	2421.0	2459.7	2507.5	2547.0	2483.8	7.4
Compensation of employees	bil.$	1960.3	2050.5	2123.1	2169.7	2224.3	2141.9	9.2
Corporate after tax profits	bil.$	128.4	138.2	146.5	152.4	156.1	148.3	15.5
Personal saving	bil.$	153.8	154.2	158.7	161.4	165.0	159.8	3.9
Average weekly earnings	$	350.9	366.8	371.0	374.9	381.6	373.6	6.5

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT
(Table 1.70 on page 29)

KEDI's projections of the money supply for 1983 show that both aggregates, M1 and M2, will surpass the Fed's targets. The upper target for M1 is 5.5 per cent. It is anticipated here that M1 will grow by 6.5 per cent. The expansion in M2 is seen as 12.0 per cent whereas the Fed's upper target is 10.5.

It is assumed there will be some tightening of monetary and credit policies starting in the second quarter and remaining throughout the year. However, it does not mean any explosion of interest rates as the tightening of money supply will not be severe.

KEDI agrees with Milton Friedman that the monetary expansion that started in mid-1982 is likely to continue in general until interest rates start to edge up and then it will be curtailed. This Institute does not agree with Friedman that interest rates will move ahead sharply.

The forecast for commercial and industrial loans shows an increase of 7.5 per cent in 1983. Most of that gain will occur in the latter part of that year.

Consumer installment credit will expand more significantly in 1983 than it did in 1982: 7.2 versus 5.0 per cent. Mortgage credit is expected here to grow quite a bit over the 1982 change. Such credit is seen as increasing 4.8 per cent in 1983 as opposed to expansion of approximately 1.4 per cent in 1982.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Currency and demand deposits, M1	bil.$	427.1	448.0	451.8	454.5	470.3	456.2	6.8
Time deposits, adjusted, M2	bil.$	1723.4	1851.1	1895.4	1941.3	1977.1	1916.2	11.2
Consumer instal. credit	bil.$	333.4	327.1	331.9	340.1	350.2	350.2	5.0
Commerc. & indus. loans at banks	bil.$	360.2	369.0	380.7	390.4	400.9	400.9	11.3
Large denomination time dep.	bil.$	295.4	307.7	322.4	328.9	330.9	322.5	9.2
Mortgages at S & L Assns.	bil.$	518.4	515.9	512.7	517.4	525.8	525.8	1.4

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	456.2	476.1	482.1	489.8	496.9	486.2	6.6
Time deposits, adjusted, M2	bil.$	1916.2	2029.2	2084.8	2166.1	2197.9	2119.5	10.6
Consumer instal. credit	bil.$	350.2	353.7	358.9	367.0	375.6	375.6	7.5
Commerc. & indus. loans at banks	bil.$	400.9	409.5	414.8	422.6	430.8	430.8	7.5
Large denomination time dep.	bil.$	322.5	334.8	339.2	346.3	354.2	343.7	6.6
Mortgages at S & L Assns.	bil.$	525.8	530.7	536.3	547.9	551.7	551.7	4.9

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	486.2	506.1	515.8	528.9	541.0	523.0	7.6
Time deposits, adjusted, M2	bil.$	2119.5	2239.5	2285.8	2334.1	2408.7	2317.0	9.3
Consumer instal. credit	bil.$	375.6	381.2	390.0	399.1	406.4	406.4	8.3
Commerc. & indus. loans at banks	bil.$	430.8	437.4	450.8	457.4	468.1	468.1	8.7
Large denomination time dep.	bil.$	343.7	355.3	368.1	379.6	388.5	372.8	8.5
Mortgages at S & L Assns.	bil.$	551.7	560.1	572.3	581.6	592.4	592.4	7.4

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 31)

It is assumed that the Federal Reserve policy in 1983 will be oriented to using both tools of regulating money and credit conditions, that is, monetary aggregates and interest rates. KEDI expects that the main emphasis will be on interest rates in the first half of the year.

The view of Norman Robertson of Mellon Bank that rates should decline a little in the first part of 1983 is shared here. It is likely that the Fed's will allow the interest rates to drop slightly during the first half of the year and allow the money supply to grow beyond target levels.

In the second part of the year, this Institute assumes they will emphasize using both tools to restrict the growth of the money supply and prevent interest rates from going up too much. KEDI agrees with the view that we need stable monetary and fiscal policies that do not go swinging wildly back and forth. Such a view has been expressed both by Milton Friedman and by Walter D. Fackler, an economist in Chicago.

KEDI anticipates the prime rate will stabilize around 10.5-11.5 per cent, the Aaa rate and Mortgage rate around 12 per cent in the first half of the year. Slight increases are expected in the second half.

The projection of the stock market shows a stable performance without any significant ups and downs. The Dow Jones is projected in the 950-1000 range and the Standard and Poor's 500 in the 129-130 area.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	9.65	9.32	10.94	-22.0
Prime rate	%	18.87	16.27	16.50	14.59	12.04	14.85	-21.3
Conventional mortgages rate	%	16.52	17.10	16.58	14.76	13.19	15.41	-6.7
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	12.81	14.01	-1.1
20 years Govt. bonds yield	%	13.72	14.27	13.80	13.24	12.03	13.34	-2.8
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	113.82	126.51	117.18	-8.8

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	10.94	9.79	9.83	10.36	11.01	10.25	-6.3
Prime rate	%	14.85	11.18	11.36	11.42	12.06	11.51	-22.5
Conventional mortgages rate	%	15.41	13.08	13.04	13.35	13.55	13.26	-14.0
Aaa corporate bonds rate	%	14.01	12.56	11.89	11.92	11.86	12.06	-13.9
20 years Govt. bonds yield	%	13.34	11.97	12.46	12.58	12.86	12.47	-6.5
Standard & Poor's 500 avg.	1941-43=100	117.18	126.20	125.43	127.11	126.14	126.22	7.7

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	10.25	11.14	11.24	11.95	12.21	11.64	13.6
Prime rate	%	11.51	12.51	12.16	12.35	12.62	12.41	7.8
Conventional mortgages rate	%	13.26	13.26	13.32	13.45	13.64	13.42	1.2
Aaa corporate bonds rate	%	12.06	12.06	12.35	12.80	12.96	12.54	4.0
20 years Govt. bonds yield	%	12.47	13.01	13.38	13.65	13.78	13.46	7.9
Standard & Poor's 500 avg.	1941-43=100	126.22	124.23	125.27	126.06	123.65	124.80	-1.9

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Table 2.0 on page 33)

In this issue a comparison of forecasts published by econometric services at the end of 1980 or at the begin of 1981 *for the year 1981* is presented.

The forecast data have been published in the *Business Forecasts 1981* (Federal Reserve Bank of Richmond, February 1981, Library of Congress Catalog Number: 75-189493.)

Econometric services selected here are those listed in *Business Week*, Investment issue, December 27, 1982/January 3, 1983, p.56, *with* the exception of Merrill Lynch Economics; RSQE University of Michigan; A. Gary Shilling & Co.; Townsend-Greenspan; and Wharton Econometric Forecasting Associates, Inc. Forecasts of these services have not been included in the Federal Reserve Bank of Richmond *Business Forecasts 1981*.

Actual data are from the March 1982 issue of the *Survey of Current Business* (U.S. Department of Commerce, Washington, D.C., monthly), *i.e. before* the June 1982 revision.

The data concern selected indicators of *Gross National Product*, *Unemployment Rate*, and *Index of Industrial Production*.

KEDI Economic Survey had been publishing these data throughout the year 1982 starting February 1982. Each monthly issue has contained a comparison of one indicator. Data in Table 2.0 are taken from these monthly issues. At the end of 1980 some forecasters had been unable to catch the December 1980 revision of the National Income and Product data which may have contributed to the deviation of forecast data from actual data.

Indicator	Appears in the 1982 issue of *KEDI Economic Survey*
1. GNP in current $	July
2. GNP in 1972 $	June
3. Implicit GNP price deflator	April
4. Gross private domestic investment	May
5. Nonresidential investment	October
6. Residential investment	September
7. Change in inventories	November
8. Personal income	August
9. Personal expenditures on services	December
10. Unemployment rate	March
11. Index of Industrial production	February

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(in % of accuracy)

FORECASTS FOR THE YEAR 1981

INDICATOR AND DATE OF FORECAST	Chase Econometrics 1/7/ 1981	Data Resources 12/28/ 1980	Georgia State 11/ 1980	KEDI 12/31/ 1980	UCLA 12/ 1980	Actual data
1. Gross national product in curr.$	-.4 1/	-2.5	-2.5	-1.0	-3.1	2925.2
2. Gross national product in 1972$	-1.4	-5.7	-4.8	.4	-4.7	1510.3
3. Implicit GNP price deflator	1.0	3.4**	2.3	-.7	2.7**	193.7
4. Gross private domestic investm.	-4.8	-12.6	-7.9	-.3	-7.7	450.5
5. Nonresidential investment	.7	-12.4	-10.2	-.1	-12.2	328.9
6. Residential investment	10.3	1.9	6.9	-2.3	7.5	105.5
7. Change in inventories***	15.7	18.8	15.7	-1.4	8.8	16.2
8. Personal income	-.2	-1.8	-2.6	-.8	-2.0	2404.1
9. Personal cons.exp. on services	.7	*	2.6	-.9	*	882.0
10. Unemployment rate	6.6	3.9	2.6	-1.6	2.6	7.6
11. Index of industrial production	*	-2.8	*	.5	-1.9	150.9

1/ The % of accuracy underlined in each of the eleven indicators is the forecast that was closest to actual data.

Actual data are in the following units: #1.,#2.,#4.-#9. in billions $; #3: 1972 = 100; #10. in %; #11: 1967 = 100.

* Not published
** Calculated as (GNP in current $/GNP in constant $)*100.
*** Accuracy is calculated as a difference between the actual and predicted data

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

2/14/83 U2635-1A

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 8, February 1, 1983

KEDI ECONOMIC SURVEY

FEBRUARY 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to:KEDI ECONOMIC SURVEY,Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent OH 44242, U.S.A. Kent State University Foundation, Inc.,and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 028300804
KEDI February 1, 1983

© Kent Economic and Development Institute

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS
1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 1
1.03 ASSUMPTIONS 3

2.00 DETAILED FORECASTS
1.10 REAL GROWTH 4
1.20 PRICES AND NOMINAL GNP 6
1.30 EMPLOYMENT AND LABOR 8
1.41 HOUSING 12
1.42 AUTOMOBILES 14
1.50 BUDGETS 14
1.60 INCOME 16
1.70 MONEY AND CREDIT 18
1.80 INTEREST RATES, YIELDS,AND SECURITIES PRICES 20

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 20

4.00 HISTORICAL DATA SOURCES 24

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 5
1.10 REAL GROWTH 7
1.21 PRICES 9
1.22 NOMINAL GNP 10
1.30 EMPLOYMENT AND LABOR 11
1.41 HOUSING 13
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS,AND SECURITIES PRICES 22
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 23
3.00 HISTORICAL DATA SOURCES 24

This forecast uses the January, 1983, U.S. Department of Commerce first estimates of 1982:4 National Income and Product data. Also used is the January 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Growth will begin gradually by the second half of the year and accelerate during that time and in 1984. Some sectors will remain in trouble while others gain. KEDI congratulates the Government for finally scaling down their forecast and looking to real growth of 1.4 per cent this year. It is seen here as somewhat higher--1.9 per cent. REAL GROWTH Factory orders, durable goods orders, and car sales have had a good showings of late. Still, unemployment and sickly capital spending do not point to anything to celebrate. PRICES The low rate for 1982, and especially the drop in the last month of that year have contributed to a revision here of the inflation rate projected for 1983. The change in the CPI is now seen at 5.0 this year and 5.8 per cent in 1984. EMPLOYMENT Forecasts range from a low of 10.2 per cent for the average in 1983 (KEDI) to a high of 10.8. HOUSING The forecast is not changed. Most agree that 1.4 million starts will be the total this year--well below normal levels. AUTOS Sales will edge up this year but not by very much. BUDGETS There is an increase in the projection of the deficit here. KEDI is in rough agreement with the government about its size for this fiscal year but views 1984 as having a deficit around 5 per cent higher then they do. INCOME Expansion of personal income will be slight in 1983, and labor's share will edge down. MONEY AND CREDIT The Fed's policy will be changed in the near future. INTEREST RATES Short-term rates will be fairly level and long-term rates will edge up by year's end.

1.02 OVERVIEW

KEDI applauds the scaling down of the forecasts that were being issued over-accenting the budget possibilities. At last the Administration has become more realistic in public in the view of the rate of growth. The Budget Director, Stockman, and the CEA chairman, Feldstein, have predicted real growth of 1.4 per cent in 1983

OVERVIEW

whereas Treasury Secretary Regan looks to 2.8-3 per cent improvement. Both He and Sec. of State Schultz are committed to optimism. KEDI calculations show that growth will be 1.9 per cent--less than Regan but more than the other leaders mentioned.

Calculations here show that growth cannot be any faster than a rate in the 1.9 per cent range due to a combination of ongoing conditions. The current year will still be below normal in its use of man and machine. The following factors are the main ingredients for the outlook.

1. Forecasters agree on a total of 1.4 million housing starts and that is about 30 per cent below normal.
2. The car sales total forecast here of 8.3 million is also about 30 per cent below normal.
3. Whereas a more typical rate of steel shipments is 90 million tons, 1983 is seen as only reaching 65-70 million tons.
4. The widening deficit will contribute some to the low rate of growth in foreign trade. (But again, it does not mean interest rates will shoot up and cut growth in the U.S.) The foreign trade deficit this year is seen at $60 billion as compared to the 1982 total of 40 billion.
5. The impact of the 10 per cent income tax cut in July of this year is viewed here as minimal; it will just about be set off by the increases in state and local taxes and hikes in social security taxes.
6. Last, but hardly least is the fact that unemployment will remain high--in the 10 per cent range.

These six aspects of the economy are the main reasons why growth simply cannot be more than marginal. Predicting growth of, say, 3 per cent, is hardly looking to a boom, but it is still not in a real possibility for this nation in 1983.

The other major point to be made here is that KEDI does support the Administration's budget proposals as realistic. KEDI agrees with the need to raise taxes starting in fiscal 1986, NOT EARLIER. As the Administration has proposed, it is also realistic to add a $5 tax on domestic and imported oil, a 1 per cent surtax on taxable income in 1986, freezing the discretionary program NOW, and also freezing

OVERVIEW

federal worker's pay for a year. There are no new taxes proposed now, thank goodness. The time for those is when the economy is definitely in an upturn. KEDI agrees that 1986 will be that time.

Deficits are OK in a recession. The time to cut them is during growth when there is strength. Doing so at the start of recovery would only lead to a severe relapse.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes or updates took place.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $31 per barrel; in 1984 it will go up to $32 per barrel; in 1985, to $34 per barrel; and in 1986, to $35 per barrel.
2. It is expected that the Mid east problems will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the first half of 1983 some relaxation, and in the second half of 1983 stabilizing is expected.
4. Increase in state and local taxation in 1983-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1983 and following years.
6. In 1983 good harvest is assumed for this country, and average production of crops is expected in the U.S.S.R. in 1983 and 1984. U.S. record crops are expected in 1985-1986.
7. Average rates of growth in 1982-1986 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.4%; Great Britain 2.1%; France 2.7%; Japan 2.9%.
8. No drastic changes in international relationships are assumed.

The February 1983 KEDI forecast is highlighted in Table 1.0 on page 5.

1.10 REAL GROWTH
(Table 1.10 on page 7)

THE RECESSION HAS TO END SOMETIME. It has been here since June of 1981. Given recent history of business cycle movements and the forecast of KEDI, it is coming to an end.

Recent data confirm the forecast here that 1983 will start out barely moving at all in the first quarter but inch ahead in the second half of the year.

KEDI is not as optimistic as Lawrence Chimerine of Chase Econometrics. In mid-January he said "...the bottom has been reached in December 1982." (Wall Street Journal, Jan. 19, 1983, page 3.) That view is seen at this Institute as premature. So is the view of Allen Sinai of Data Resources that the bottom of the economic trough was reached in December. Mr. Ratajczak of Georgia State referred to December as the end of the recession. Well, the end is near, but is has not yet been reached.

Economist Michael Evans, now of the investment research firm of McMahan, Brafman, Morgan and Co. pointed out recently that recoveries depend on increases in capital spending, not consumer spending. KEDI is in strong agreement. The reader is referred to section 1.20, Prices, for more on capital. Capital equipment prices are providing mixed signals currently.

There are some indicators that do show better times are ahead.

1. Factory orders and shipments rose in November by 0.7 per cent after having dropped 4.1 per cent in October.

2. New orders of durable goods moved ahead handsomely to an adjusted total of just over $79 billion from the revised November figure of $70 billion.

3. New domestic car sales were up 11.5 per cent in mid-January from the like period a year earlier. Incentives and below market interest rates have hepled sales in the last few months.
4. As far as leading economic indicators go, six of the 10 were up in December.

5. During the fourth quarter, productivity gained at an annual rate of

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1474.8	1620.7	1688.8
Index of industrial production	1967=100	151.0	138.5	165.7	179.1
Capacity utilization	%	78.5	69.8	75.9	77.3
Unemployment rate	%	7.6	9.7	7.6	7.4
Private housing starts	mil.	1.084	1.061	1.502	1.629
Car sales	mil.	8.6	7.9	9.6	9.9
Implicit GNP price deflator	1972=100	195.5	207.2	245.9	261.9
Consumer price index	1967=100	272.4	289.1	341.4	364.3
Producer price index*	1967=100	269.7	280.6	346.8	373.5
Federal deficit	bil.$	-60.0	-144.7	-101.5	-64.3
Personal income	bil.$	2415.8	2569.7	3104.6	3334.3
Prime rate	%	18.87	14.88	11.42	12.28
Mortgage rate	%	16.52	15.41	12.60	13.02
Currency plus demand deposits	bil.$	427.1	456.7	557.3	594.6
Commercial and industrial loans	bil.$	360.6	405.6	503.6	532.9

* Finished goods

REAL GROWTH

2.7 per cent. Still, for the entire year, it was only up 0.2 per cent.

HOWEVER the projection of unemployment is still bad. Unless joblessness drops, it is hardly time to talk about the recovery!

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast of the inflation rate has been revised downwards in this issue. KEDI had not expected the December drop that took place. As measured by the Consumer Price Index, the decline in December of 0.3 per cent was attributed mostly to the falling interest rates and a bit of easing in energy price rises. Medical-care cost did gain as they had been doing all year. Inflation is now seen as 5.0 per cent for 1983.

The main reason for the downward revision here also include a change in the forecast of the rate of inflation of food and beverages from 3.5 to 3.0 per cent, and a reduction in the rise of energy prices from 7.0 to 6.0 per cent during 1983. KEDI and most analysts found that energy prices moved ahead slower and food prices stayed more moderate than they had been expecting in 1982.

The Producer Price Index was up by only 0.1 per cent in December which made 1982's inflation rate for this index the lowest in 11 years: 3.5 per cent. It is important to note that capital equipment prices for the year were up just 4 per cent or under one-half of the 1982 rate. Such equipment is needed to modernize factories and help create new jobs. These prices rose just 0.3 per cent in November, but moved ahead in December. That is a good sign as it points to increased demand. Still, the prices of crude goods which had risen 0.9 per cent in November, dropped by the same rate in December. That is not a good sign. Looking at capital equipment and crude goods prices together, provides a picture that does not point to any definite upturn in the next month or so at all.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*		1982			1982	%
			1 *	2 *	3 *	4		(1)
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1478.4	1478.4	1471.7	1474.8	-1.9
Index of industrial product.	1967=100	151.0	141.6	139.2	138.2	135.1	138.5	-8.3
Unemployment rate	%	7.6	8.8	9.5	9.9	10.6	9.7	27.2
Capacity utilization rate	%	78.5	71.6	70.3	69.7	67.6	69.8	-11.0
Private housing starts	mil. units	1.084	.919	.958	1.114	1.251	1.061	-2.1
Car sales	mil. units	8.6	8.3	7.5	7.8	8.7	7.9	-8.1

Indicator	Unit	1982		1983			1983	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	.1474.8	1481.1	1493.0	1510.5	1529.1	1503.4	1.9
Index of industrial product.	1967=100	138.5	136.7	139.9	144.8	148.7	142.5	2.9
Unemployment rate	%	9.7	10.9	10.3	9.9	9.5	10.2	5.2
Capacity utilization rate	%	69.8	68.1	69.6	71.2	73.0	70.5	1.0
Private housing starts	mil. units	1.061	1.122	1.421	1.479	1.439	1.365	28.7
Car sales	mil. units	7.9	8.3	8.4	8.2	8.5	8.4	6.3

Indicator	Unit	1983		1984			1984	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	1503.4	1540.0	1553.2	1569.0	1583.2	1561.4	3.9
Index of industrial product.	1967=100	142.5	148.7	152.6	157.0	161.7	155.0	8.8
Unemployment rate	%	10.2	9.3	9.1	8.5	8.2	8.8	-13.7
Capacity utilization rate	%	70.5	74.1	75.0	76.1	76.7	75.5	7.1
Private housing starts	mil. units	1.365	1.398	1.443	1.556	1.479	1.468	7.5
Car sales	mil. units	8.4	8.7	8.8	8.8	9.0	8.9	6.0

*Historical data (1) % change over previous year

1.22 NOMINAL GNP
(Table 1.22 on page 10)

The outlook for 1983 Nominal GNP remains essentially the same. It is no surprise that the fastest growing component will be purchases of goods and services by the federal government: up 11.7 per cent this year due mostly to more defense spending. Overall increases in the GNP are expected to be 4.1 per cent by KEDI.

The main structural change in nominal GNP is seen in the foreign trade component as there will be a significant rise in the import category over exports. Whereas there was a surplus of $17.1 billion in 1982, a deficit of $23.1 billion is projected for this year.

The long-term forecast shows that in 1984 there will be a lessening of the foreign trade deficit to the $6.3 billion range, 1985 will show an approximate balance of exports and imports, and there will be some surplus in 1986.

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 11)

Data presented in this forecast are based on the methodology that had been used in 1982 and previous years, i.e. the data do not include some armed forces in the "Civiliam Labor Force". The first government data that include this new component will be released in early February after the date of this Survey. In the new methodology, the data for the "Civilian Labor Force" are higher and, consequently, the unemployment rate is lower when compared with the previous data.

The seasonal adjustment factor may also play a role in the January 1983 government estimate. An unusually low number of persons were hired for the December 1983 Christmas season and, consequently, an unusually low number of persons were released after the Christmas season was over. The seasonal adjustment factor the government is using to adjust the actual unemployment data for January 1983 does not take into account that fact. It may cause the January 1983 unemployment rate to be a bit lower than what would normally be expected.

1.21 PRICES
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3*	4		(1)
Consumer price index, n.s.a.	1967=100	272.4	283.0	287.3	292.8	293.0	289.1	6.1
Producer price index, n.s.a.**	1967=100	269.8	277.7	278.3	281.8	284.6	280.6	4.0
Price deflators:								
GNP	1972=100	195.5	203.6	206.0	208.4	210.7	207.2	6.0
Personal cons. expenditures	1972=100	194.5	202.2	204.0	207.7	210.2	206.0	5.9
Gross private dom. investment	1972=100	184.3	212.3	213.3	214.8	216.7	214.3	16.3
Federal purchases	1972=100	207.4	218.3	221.6	222.9	223.2	221.5	6.8

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Consumer price index, n.s.a.	1967=100	289.1	296.6	301.6	305.5	310.7	303.6	5.0
Producer price index, n.s.a.**	1967=100	280.6	288.5	294.5	299.7	306.3	297.3	6.0
Price deflators:								
GNP	1972=100	207.2	212.8	216.9	219.4	222.7	218.0	5.2
Personal cons. expenditures	1972=100	206.0	212.4	216.3	218.5	221.0	217.1	5.4
Gross private dom. investment	1972=100	214.3	219.7	219.1	222.1	225.2	221.5	3.4
Federal purchases	1972=100	221.5	229.4	232.6	235.4	240.3	234.4	5.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index, n.s.a.	1967=100	303.6	313.4	317.5	324.4	329.8	321.2	5.8
Producer price index, n.s.a.**	1967=100	297.3	310.1	315.5	323.4	328.6	319.4	7.4
Price deflators:								
GNP	1972=100	218.0	225.4	229.1	233.8	238.9	231.8	6.3
Personal cons. expenditures	1972=100	217.1	223.9	227.8	232.6	236.5	230.2	6.3
Gross private dom. investment	1972=100	221.5	228.5	231.9	236.8	241.3	234.6	5.9
Federal purchases	1972=100	234.4	244.0	248.7	252.3	256.7	250.4	6.8

*Historical data (1) % change over previous year **Finished goods

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Gross national product	bil.$	2937.7	2995.5	3045.2	3088.2	3101.3	3057.6	4.1
Personal cons. expenditures	bil.$	1843.2	1919.4	1947.8	1986.3	2034.6	1972.0	7.0
Gross private dom. investment	bil.$	471.5	414.4	431.5	443.3	397.9	421.8	-10.5
Net exports	bil.$	26.1	31.3	34.9	6.9	-6.9	16.6	-36.4
Government purchases:								
Federal	bil.$	228.9	249.7	244.3	259.0	276.1	257.3	12.4
State and local	bil.$	368.0	380.4	386.6	392.7	399.6	389.8	5.9

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product	bil.$	3057.6	3151.8	3238.3	3314.0	3405.3	3277.4	7.2
Personal cons. expenditures	bil.$	1972.0	2041.7	2097.4	2132.7	2180.1	2113.0	7.2
Gross private dom. investment	bil.$	421.8	449.6	470.6	490.3	512.6	480.8	14.0
Net exports	bil.$	16.6	-15.0	-23.6	-25.2	-29.7	-23.4	-
Government purchases:								
Federal	bil.$	257.3	272.9	281.6	291.9	303.4	287.5	11.7
State and local	bil.$	389.8	402.6	412.3	424.3	438.9	419.5	7.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil.$	3277.4	3471.1	3558.4	3684.0	3782.3	3624.0	10.6
Personal cons. expenditures	bil.$	2113.0	2210.4	2266.1	2343.4	2410.7	2307.7	9.2
Gross private dom. investment	bil.$	480.8	517.2	524.6	528.7	536.4	526.7	9.5
Net exports	bil.$	-23.4	-16.0	-14.1	3.0	3.2	-6.0	-
Government purchases:								
Federal	bil.$	285.7	311.6	322.5	334.1	346.8	328.8	11.4
State and local	bil.$	419.5	447.9	459.3	474.7	485.2	466.8	11.3

*Historical data. (1) % change over previous year

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Population	mil.	225,9	228,0	229.2	230,4	231,4	229.6	1.6
Civilian labor force	mil.	108,7	109.1	110,2	110,7	111,7	110.4	1,6
Employment	mil.	100,5	99.5	99,8	99,8	99,8	99,7	-,8
Agriculture	mil.	3,4	3,4	3,4	3,3	3.3	3,4	.0
Non agricult.	mil.	97,1	96.1	96,4	96,5	96.5	96.4	-,7
Unemployment rate	%	7,62	8,77	9,46	9.89	10,63	9,69	27.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229,6	231.5	232,2	232,9	233,4	232.5	1.3
Civilian labor force	mil.	110,4	112.4	113,6	114.7	115.6	114.1	3.4
Employment	mil.	99.7	100,2	101.9	103.4	104.6	102.5	2.9
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96,4	96.9	98.4	100.0	101.3	99.1	3.1
Unemployment rate	%	9,69	10,89	10.33	9,87	9.54	10.16	4.9

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	116.7	117.4	118.2	119.5	118.0	3.4
Employment	mil.	102.5	105.9	106.7	108.1	109.3	107.5	4.7
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.1	102.6	103.3	104.7	106.0	104.1	4.7
Unemployment rate	%	10.16	9.27	9.11	8.63	8.20	8.78	-13.6

*Historical data (1) % change over previous year

EMPLOYMENT AND LABOR

KEDI maintains its forecast that the jobless rate in the first two months of this year will be higher than in December 1982--in the old methodology around 11 per cent. There will be slight declines in March and in the following months.

In 1983 high unemployment will persist in steel autos, construction, rubber, plastics, nonelectrical machinery, and metal mining. A few of these areas will see gains in jobs, such as steel and autos, but the total will still be far below normal.

1.41 HOUSING
(Table 1.41 on page 13)

The outlook is not changed in this issue. It is in line with the majority of forecasters in that 1.4 million starts are seen as the total for 1983. In a time of economic growth, a normal rate is 1.8-2 million starts.

There are three basic reasons that this Institute cites as contributing to the subnormal rate for this year: mortgage rates, permits authorized, and joblessness.

First, mortgage rates will still be high by historical standards--beyond the reach of many families budgets. KEDI agrees with the president of the Mortgage Bankers Association, James Wooten, that there will not be any more dramatic drops in interest rates. Also, J. T. Howard, chief economist of the Federal National Mortgage Assoc. indicated that he felt long-term rates would not decline more than about another one-half a per cent. This Institute agrees. However, his forecast that starts will total more than 1.4 million this year is not shared here.

Secondly, The forecast data of permits authorized do not indicate any substantial gain over 1.4 million which is the average calculated here. Permits authorized in 1981 came to 985,500 and 992,500 last year. In comparison, the annual rate in November was 1.192 million and December it edged up to 1.291 million.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Single-family housing starts	mil.	.706	.586	.603	.638	.795	.656	-7.1
Multifamily housing starts	mil.	.379	.333	.355	.476	.456	.405	6.9
Mobile home shipments	mil.	.241	.238	.246	.234	.232	.238	1.2
Permits authorized	mil.	.969	.832	.924	1.114	1.223	1.023	5.6
1-family unit** price, new	tho.$	83.1	80.8	85.9	92.0	96.9	88.9	7.0
1-family unit** price, existing	tho.$	78.0	79.2	80.8	83.0	87.0	82.5	5.8

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.656	.684	.860	.897	.865	.827	26.1
Multifamily housing starts	mil.	.405	.438	.561	.582	.574	.539	33.0
Mobile home shipments	mil.	.238	.254	.271	.289	.275	.272	11.9
Permits authorized	mil.	1.023	1.205	1.297	1.314	1.307	1.281	25.2
1-family unit** price, new	mil.	88.9	98.4	101.9	103.4	105.5	102.3	15.1
1-family unit** price, existing	tho.$	82.5	89.1	92.1	95.2	98.1	93.7	13.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.827	.801	.842	.927	.895	.866	4.7
Multifamily housing starts	mil.	.539	.592	.601	.629	.584	.602	11.7
Mobile home shipments	mil.	.272	.254	.278	.296	.292	.280	2.9
Permits authorized	mil.	1.281	1.280	1.365	1.397	1.314	1.339	4.5
1-family unit** price, new	tho.$	102.3	107.5	111.2	114.1	116.7	112.4	9.9
1-family unit** price, existing	tho.$	93.7	99.4	102.3	104.7	107.2	103.4	10.4

*Historical data (1) % change over previous year **Not seas. adjusted

HOUSING

Third, it is unemployment again that puts the damper on forecasts. The projected unemployment is too high to allow the generation of enough income to pay for more houses and mortgages.

1.42 AUTOMOBILES
(Table 1.42 on page 15)

The forecast is not changed. There will be some improvement when compared to 1982 but not too much. Las year 7.9 million cars were sold. The forecast here for 1983 is 8.3 million.

The 11.5 per cent increase in car sales in the first 10 days of January is a bit of good news, but incentives and special low interest rates for financing pushed the sales ahead. Those extra added attractions did not exist in 1982. Hence, a direct comparison is misleading.

The forecast at KEDI for the share of imported autos also remains the same. That share will go down. The following is anticipated:

1. Due to import restrictions, there will be a smaller portion of the market pie for the Japanese cars
2. The portion of imports from Europe will gain a bit--mainly Mercedes Benz, BMW, Volvo, Saab, and Jaguar.

Still, the two together will total less than they did in 1982 in terms of proportions.

During 1983, light truck sales will remain firm by gaining 5 per cent over 1982 and totalling 2.1 million. The share of imports will gain in this market. Mainly light trucks from Japan will be represented.

1.50 BUDGETS
(Table 1.50 on page 17)

The projected deficits by the Administration and KEDI are now roughly the same for fiscal 1983 but diverge for the next year. Both KEDI and the government have had to upwardly revise their estimates of late, especially since the assumption about an additional budget cut of over $20 billion was dropped. The two forecasts are outlined here in billions

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2*	3 *	4	1982	% (1)
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	8.7	7.9	-8.1
Domestic	mil.	6.3	6.0	5.5	5.5	6.1	5.7	-9.5
Imported	mil.	2.3	2.3	2.0	2.2	2.5	2.2	-4.4
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.5	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	1.9	5.0	-1.6
Light-duty truck sales	mil.	1.7	2.2	2.1	2.0	2.1	2.1	23.5

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Passenger cars								
Total sales	mil.	7.9	8.3	8.4	8.2	8.5	8.4	6.3
Domestic	mil.	5.7	6.3	6.3	6.3	6.6	6.3	10.5
Imported	mil.	2.2	2.0	2.1	1.9	2.0	2.1	-4.5
Dealers inventories**	mil.	1.4	1.7	1.8	1.4	1.5	1.6	14.3
Factory shipments**	mil.	5.0	6.0	6.1	5.8	6.4	6.1	22.0
Light-duty truck sales	mil.	2.1	1.9	2.2	2.0	2.1	2.2	4.8

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Passenger cars								
Total sales	mil.	8.4	8.7	8.8	8.8	9.0	8.9	5.9
Domestic	mil.	6.3	6.8	7.0	7.1	7.1	7.0	11.1
Imported	mil.	2.1	1.9	1.8	1.7	1.9	1.9	-9.5
Dealers inventories**	mil.	1.6	1.8	1.7	1.7	1.6	1.7	6.3
Factory shipments**	mil.	6.1	6.8	7.0	6.8	6.9	6.9	13.1
Light-duty truck sales	mil.	2.2	2.1	2.3	2.3	2.1	2.2	.0

*Historical data (1) % change over previous year **Seas. not adjusted

BUDGETS

of dollars in the red.

Fiscal Years	Administration	KEDI
1983	208	206
1984	189	198
1985	194	195
1986	148	151
1987	142	148
1988	117	120

President Reagan outlined the following in his State of the Union message. 1. The July 1 tax cut will be realized. 2. Federal pay will be frozen for a year. 3.The defense budget will be reduced by roughly $10 billion each year starting in 1984 and going through 1988. 4. The 1 per cent surcharge on individual and corporate taxes or any other form of direct taxation and the $5 a barrel excise tax take effect in 1986. At that time recovery growth will be well under way and the taxes won't curtail it but will aid in deficit reduction. 5. Non-defense programs will be cut by approximately 2 per cent in fiscal 1984.

It is, of course, in the assumption stage now about these measures as they will ultimately depend on Congress.

There is no change in the projections of state and local governments. The financial impact of the "New Federalism" plan has not been incorporated.

1.60 INCOME

(Table 1.60 on page 19)

The projection of personal income has remained unchanged. It is seen as expanding by approximately 5.6 per cent during 1983. THE STRUCTURE OF PERSONAL INCOME WILL BE WEAKENED: 1. The forecast shows that the share of labor income will decline in 1983. Such income accounted for 60 per cent of personal income in 1982. It will go down to 57 per cent in 1983 largely due to continued high unemployment and smaller increases in average wage rates when compared to 1982. 2. The share of transfer payments will gain from 15 per cent last year to 18 per cent in 1983.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*		1982			1982	% (1)
			1*	2*	3*	4		
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	295.6	299.3	300.2	.5
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	49.8	50.7	47.9	-29.1
Surplus/deficit	bil.$	-60.0	-118.4	-119.6	-156.0	-184.7	-144.7	241.2
State and local governments:								
Income taxes	bil.$	88,6	93,6	95.4	98.8	100.5	97.1	9.6
Corporate prof. tax accruals	bil.$	10,1	10,1	10.2	10.2	11.3	10.7	5.9
Surplus/deficit	bil.$	31,7	27.7	32.1	32.3	32.1	31.1	-2.0

Indicator	Unit	1982		1983			1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	300.2	302,7	307.9	298.4	306.7	303.9	1.1
Corporate prof. tax accruals	bil.$	47.9	53.2	61.5	67.8	72.0	63.6	32.7
Surplus/deficit	bil.$	-144,7	-189.8	-196.3	-208.2	-190.6	-196.2	33.6
State and local governments:								
Income taxes	bil.$	97,1	103.5	107.9	111.6	112.8	109.0	12.3
Corporate prof. tax accruals	bil.$	10,7	12.1	13.2	13.8	14.3	13.4	25.2
Surplus/deficit	bil.$	31.1	33.0	34.6	36.4	35.1	34.8	11.9

Indicator	Unit	1983		1984			1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	303.9	310.0	323.5	331.7	342.3	326.9	7.6
Corporate prof. tax accruals	bil.$	63.6	73.9	77.0	80.4	84.0	78.9	24.1
Surplus/deficit	bil.$	-196.2	-161.4	-147.5	-132.2	-121.6	-140.7	-22.3
State and local governments:								
Income taxes	bil.$	109.0	113.9	116.2	122.1	125.7	119.5	9.6
Corporate prof. tax accruals	bil.$	13.4	15.2	16.0	16.7	17.3	16.3	21.2
Surplus/deficit	bil.$	34.8	35.1	35.4	36.2	37.2	36.0	3.4

*Historical data (1) % change over previous year

INCOME

The main increase will be in unemployment insurance benefits. They will rise by 19 per cent as compared to the 1982 level. 3. The income of farmers was at a $17.3 billion level last year and is forecast at $17.9 billion in 1983. That is far below normal levels of $20-22 billion. For instance farm income in 1981 was at $24 billion and at $19 billion in '80.

There is a very slight change in the projection of average weekly earnings. They are now seen as increasing 5.9 per cent in 1983 as opposed to 6.0 per cent in the last issue.

The forecast of corporate after-tax profits still shows a 9.3 per cent gain this year from 1982's $117.6 billion to a total of $129 billion which is still far below 1981's $150.9 billion, for example. In 1984, the projection shows profits will approach that amount by piling up to $149 billion.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The Federal Reserve has been pursuing a policy of aggressive relaxation in both monetary and credit policies. (The Fed started to ease the money supply in the middle of 1982.) KEDI assumes that the laid-back policies will soon be over.

Recent statements by the Fed Chairman, Paul Volcker, support that view. He pointed to the need for some restraints so that excessive money supply growth would not unfavorably affect interest rates and hence dampen any recovery.

Price stability is also hardly a sure thing. As Mr. Volcker reminded us, the rate of inflation is just now back to the pace it was in 1971. At that time, the level was considered way too high and wage and price controls were imposed. Monetary and fiscal discipline are needed to promote growth and curtail price hikes.

The money supply M1 jumped $6.9 billion in the week ending January 12. There are indications that the January,1983, growth of M2 will be in

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3*	4		(1)
Personal income	bil.$	2415.8	2510.5	2552.7	2592.5	2623.2	2569.7	6.4
Personal disposable income	bil.$	2029.1	2117.1	2151.5	2198.1	2223.5	2172.6	7.1
Compensation of employees	bil.$	1767.6	1819.9	1850.8	1868.3	1873.7	1853.2	4.8
Corporate after tax profits	bil.$	150.9	115.9	116.3	119.4	118.9	117.6	-20.1
Personal saving	bil.$	130.2	139.1	144.3	152.0	128.9	141.1	8.4
Average weekly earnings	$	316.8	323.4	329.8	332.9	335.2	330.3	4.3

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2569.7	2659.8	2699.0	2741.2	2797.1	2724.3	6.0
Personal disposable income	bil.$	2172.6	2253.6	2283.2	2331.2	2377.6	2311.9	6.4
Compensation of employees	bil.$	1853.2	1904.5	1949.7	1959.2	2006.1	1954.9	5.5
Corporate after tax profits	bil.$	117.6	122.7	127.3	130.9	133.9	128.7	9.3
Personal saving	bil.$	141.1	150.3	149.1	157.6	156.2	153.3	8.6
Average weekly earnings	$	330.3	338.2	349.1	354.7	356.1	349.5	5.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2724.3	2834.8	2878.6	2931.4	2982.6	2906.9	6.7
Personal disposable income	bil.$	2311.9	2410.9	2438.9	2477.6	2514.6	2460.5	6.4
Compensation of employees	bil.$	1954.9	2040.2	2113.6	2154.1	2204.1	2128.0	8.8
Corporate after tax profits	bil.$	128.7	138.8	147.1	153.2	156.9	149.0	15.7
Personal saving	bil.$	153.3	154.6	158.9	161.8	165.2	160.1	4.5
Average weekly earnings	$	349.5	366.0	370.1	374.0	380.7	372.2	6.6

*Historical data (1) % change over previous year

the 15-20 per cent range.

The forecast of consumer installment credit has been increased somewhat. There are no essential changes in the forecast of other monetary and credit aggregates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 22)

The projection is not changed. KEDI's assumptions about short-term interest rates correspond to the view recently expressed by the Administration. "Short-term interest rates will remain close to their current levels for the next two years." (Wall Street Journal, Jan. 27, page 3.)

This Institute expects long-term rates to gradually increase starting in the latter part of this year. The long-term U.S. Government bond yield is expected to increase from 12.50 in mid-83 to 12.90 at the end of this year. Also, the Aaa bond rate is seen as gaining to 12.70 at the end of 1983 whereas it is projected at the 11.90 per cent level in the middle of this year.

Mortgage rate declines will end soon. KEDI's forecast shows that rate which is about 13.5 per cent currently moving down to 12.8 per cent by the middle of the year and back up to 13.2-13.3 by year's end.

The stock market should show a fairly stable performance throughout the year. No significant ups or downs are anticipated.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Housing Starts for the year 1982 has been selected for comparison. The actual figure has been calculated from the Survey of Current Business, Blue pages, No.12, December 1982 (U.S. Department of Commerce, Washington, D.C., monthly) and the January 1983 Department of Commerce release on Housing Starts. Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1 *	2 *	3 *	4		
Currency and demand deposits, M1	bil.$	427.1	448.0	451.8	455.7	471.2	456.7	6.9
Time deposits, adjusted, M2	bil.$	1723.4	1851.1	1895.4	1941.4	1977.6	1916.4	11.2
Consumer instal. credit	bil.$	333.4	327.1	331.9	335.9	345.1	345.1	3.5
Commerc.& indus. loans at banks	bil.$	360.2	369.0	385.1	394.4	405.6	405.6	12.6
Large denomination time dep.	bil.$	295.4	307.7	322.4	338.2	348.6	329.2	11.4
Mortgages at S & L Assns.	bil.$	518.4	515.9	512.7	495.4	491.5	491.5	-5.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	456.7	476.9	483.2	491.6	497.8	487.4	6.7
Time deposits, adjusted, M2	bil.$	1916.4	2031.7	2086.5	2169.8	2207.4	2123.2	10.8
Consumer instal. credit	bil.$	345.1	354.0	359.8	366.7	373.8	373.8	8.3
Commerc.& indus. loans at banks	bil.$	405.6	409.9	416.6	425.1	438.3	438.3	8.1
Large denomination time dep.	bil.$	329.9	354.7	359.4	366.3	374.2	363.7	10.4
Mortgages at S & L Assns.	bil.$	491.5	497.6	504.3	510.2	519.5	519.5	5.7

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	487.4	506.0	515.3	528.2	540.4	522.5	7.2
Time deposits, adjusted, M2	bil.$	2123.2	2239.2	2285.9	2334.3	2408.9	2317.1	9.1
Consumer instal. credit	bil.$	373.8	381.0	389.2	398.5	405.0	405.0	8.3
Commerc.& indus. loans at banks	bil.$	438.3	437.6	451.9	459.8	471.3	471.3	7.5
Large denomination time dep.	bil $	363.7	365.2	379.4	388.5	400.4	383.4	5.4
Mortgages at S & L Assns.	bil.$	519.5	530.3	542.6	551.4	562.6	562.6	8.2

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982 1*	2*	3*	4	1982	% (1)
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	8.10	8.95	10.46	-25.4
Prime rate	%	18.87	16.27	16.50	14.72	12.01	14.88	-21.1
Conventional mortgages rate	%	16.52	17.10	16.58	14.80	13.12	15.40	-6.8
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	12.79	14.00	-1.2
20 years Govt. bonds yield	%	13.72	14.27	13.80	12.01	11.87	12.99	-5.3
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	113.82	126.49	117.17	-9.5

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Treasury bills (3 mo) yield	%	10.46	9.65	9.71	10.04	11.00	10.10	-5.4
Prime rate	%	14.88	11.04	11.12	11.22	11.68	11.27	-24.3
Conventional mortgages rate	%	15.40	13.03	12.95	13.14	13.22	13.09	-15.0
Aaa corporate bonds rate	%	14.00	12.40	11.78	11.65	11.72	11.89	-15.1
20 years Govt. bonds yield	%	12.99	11.54	12.03	12.14	12.51	12.06	-7.2
Standard & Poor's 500 avg.	1941-43=100	117.17	126.29	125.64	127.43	128.17	126.88	8.2

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	10.10	11.01	11.17	11.62	12.04	11.46	4.1
Prime rate	%	11.27	11.80	11.96	12.04	12.16	11.99	6.4
Conventional mortgages rate	%	13.09	13.20	13.21	13.28	13.43	13.28	1.5
Aaa corporate bonds rate	%	11.89	11.78	11.94	12.43	12.51	12.17	2.4
20 years Govt. bonds yield	%	12.06	12.87	13.24	13.25	13.30	13.17	9.2
Standard & Poor's 500 avg.	1941-43=100	126.88	126.14	127.31	128.15	126.51	127.03	.1

*Historical data (1) % change over previous year

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Housing Starts, mil. units)

Actual figure: 1,061

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
Prudential	11/30/81	1.300	7	+22.6
National Securities and Research Corporation	12/81	1.300	7	+22.6
U.S. Trust Company	12/81	1.210	9	+14.2
Calvin Myers, The Merchants National Bank of Aurora	12/4/81	1.300	9	+22.6
United Business Service	12/14/81	1.300	11	+22.6
J.A. Livingston	12/27/81	1.228	13	+15.8
Ameri Trust Company	11/81	1.200	14	+13.2
Georgia State	11/81	1.196	15	+12.8
Harris Trust and Savings Bank	11/11/81	1.275	17	+20.2
Chemical Bank	11/19/81	1.100	18	+3.3
American Statistical Association and National Bureau of Economic Research	12/81	1.300	19	+22.6
UCLA	12/81	1.315	20	+24.0
Alex A. Burkholder	12/3/81	1.285	22	+21.2
Paul C. Harnon, Armco	12/4/81	1.200	22	+13.2
The Philadelphia National Bank	12/10/81	1.200	23	+13.2
Standard & Poor's	12/10/81	1.200	24	+13.2
Manufacturers Hanover Trust Company	12/11/81	1.213	25	+14.4
Fidelity Bank	12/18/81	1.180	26	+11.3
Cities Service Company	12/31/81	1.300	27	+22.6
KEDI	1/1/82	1.026	28	-3.2
The First National Bank of Chicago	1/5/82	1.250	29	+17.9
Morgan Guaranty Trust Company	1/7/82	1.163	30	-2.8

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

U2635-18

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 9, March 1, 1983

KEDI ECONOMIC SURVEY
MARCH 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 038300814
KEDI March 1, 1983

© Kent Economic and Development Institute

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

March 1, 1983

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 1
1.03 ASSUMPTIONS 2

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 3
1.20 PRICES AND NOMINAL GNP 6
1.30 EMPLOYMENT AND LABOR 8
1.41 HOUSING 10
1.42 AUTOMOBILES 12
1.50 BUDGETS 12
1.60 INCOME 14
1.70 MONEY AND CREDIT 16
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 18
3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 20
4.00 HISTORICAL DATA SOURCES 23

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 4
1.10 REAL GROWTH 5
1.21 PRICES 7
1.22 NOMINAL GNP 9
1.30 EMPLOYMENT AND LABOR 11
1.41 HOUSING 13
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 22
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 20
3.00 HISTORICAL DATA SOURCES 23

This forecast uses the Fabruary, 1983, U.S. Department of Commerce second estimates of 1982:4 National Income and Product data. Also used is the February 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

There are signs of spring in this forecast. The increase in GNP for 1983 is now seen as 2.4 per cent over the prior year. REAL GROWTH Durable orders, housing starts, new orders, and industrial production all showed elements of gain. Still, temporary influences that pushed some figures ahead lead to caution. PRICES Good news here. The extremely low rate of change in the CPI in January combined with the decline in the Producer Price Index point to more good news. Recovery will not be brought up short by inflation. Inflation is seen at a 3.0 per cent rate this year. EMPLOYMENT The picture here is less than cheery. New jobless claims were up recently. There cannot be vigorous recovery as long as joblessness runs in the 10 per cent range. HOUSING The forecast data have been increased slightly. Housing will edge ahead despite big federal deficits. AUTOS Not to put a wet blanket on it, but again, the jump in January was not the start of a definite trend. Mid-February had grim sales totals. BUDGETS The forecast of the federal deficit is barely changed. KEDI is in rough agreement with the Administration on the deficit size for fiscal 1983 but sees it as lower than they do for 1984. There is a downward revision for surpluses of state and local budgets. INCOME Personal income will hardly change this year in real terms. Corporate profits are seen rising 10.3 per cent. MONEY AND CREDIT The projection is not changed and is within limits set by the Fed. INTEREST RATES The general forecast is being confirmed. The prime rate is seen as averaging 10 per cent this year and mortgage rates will move down to the 11.7 range.

1.02 OVERVIEW

There are signs of Spring, but its hardly time to look forward to daffodils in profusion. Miniature blossoms and some dandelions are more descriptive. Caution is necessary as the recovery will be proceeding. KEDI maintains its prediction: the worst is over.

OVERVIEW

However, it does not mean that there will be vigorous growth this year.

This Institute does not agree with Milton Friedman in his view of the current recession as being one of the most severe in recent decades which means that the rebound will be vigorous. That is the view that looks to mild recessions as being followed by mild recoveries, and severe ones by sharper comebacks. KEDI does not share that interpretation. The growth will be quite mild with acceleration in the latter part of this year and continuing into 1984.

Paul Volcker has made reference to the delicate state of the economy. That is an apt description. KEDI shares his analysis that "the stage has been set for long-lasting, non-inflationary expansion." (The New York Times, Feb. 20, page 2E.)

The recovery will be lead by defense, and by improvements in housing and autos. That has been maintained here for months. Of the forecasters surveyed by Blue Chip Economic Indicators, the average rate of growth predicted for this year was 2.5 per cent with the range going from 0.9 to 4.9 per cent. This Institute falls on the low side of the average. The growth rate here is seen as 2.4 per cent for 1983. (Last month the figure used was projected lower: 1.9.) The 2.4 per cent growth has as its major components:

8.7 million cars sold
1.5 million housing starts
64-68 million tons of steel, and
9.9 per cent as an average unemployment rate

The slow recovery is seen as less slow now due mostly to a revision of housing, autos, and the effect of lower oil prices.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No.1 and No.7 have been updated.

ASSUMPTIONS

1. In 1983, it is expected the weighted price of oil will be $28 per barrel; in 1984 it will go up to $30 per barrel; in 1985, to $31 per barrel; and in 1986, $32 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1986 period. In the first half of 1983 some relaxation, and in the second half of 1983 stabilizing is expected.
4. Increase in state and local taxation in 1983-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1983 and the following years.
6. In 1983 a good harvest is assumed for this country, and average production of crops is expected in the U.S.S.R. in 1983 and 1984. U.S. record crops are expected in 1985-1986.
7. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.
8. No drastic changes in international relationships are assumed.

The March 1983 KEDI forecast is highlighted on page 4.

1.10 REAL GROWTH

(Table 1.10 on page 5)

Spring is yielding some sprouts of growth in the economy.

1. Durable orders rose 4.5 per cent in January. That was the third consecutive monthly increase indicating some momentum for gradual recovery. The new orders for big ticket durable goods went over the $80 billion mark for the first time in about ten months. New orders for non-defense capital goods gained 4.1 per cent in Jan.

2. In early February, it was reported that new and unfilled

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1475.4	1644.9	1715.7
Index of industrial production	1967=100	151.0	138.6	173.4	184.1
Capacity utilization	%	78.5	69.8	80.2	81.8
Unemployment rate	%	7.6	9.7	7.4	6.9
Private housing starts	%	1.084	1.061	1.707	1.704
Car sales	mil.	8.6	7.9	9.9	10.6
Implicit GNP price deflator	1972=100	195.6	207.2	237.2	250.7
Consumer price index	1967=100	272.4	289.1	330.4	348.2
Producer price index*	1967=100	269.7	280.6	332.5	356.4
Federal deficit	bil.$	-60.0	-144.7	-95.4	-58.7
Personal income	bil.$	2415.8	2569.7	3173.1	3398.7
Prime rate	%	18.87	14.88	11.14	11.31
Mortgage rate	%	16.52	15.41	11.45	12.47
Currency plus demand deposits	bil.$	427.1	456.7	563.6	605.4
Commercial and industrial loans	bil.$	360.6	405.6	504.1	534.7

* Finished goods

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2*	3*	4	1982	% (1)
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1478.4	1478.4	1473.9	1475.4	-1.8
Index of industrial product.	1967=100	151.0	141.6	139.2	138.2	135.2	138.6	-8.2
Unemployment rate	%	7.6	8.8	9.4	10.0	10.7	9.7	27.6
Capacity utilization rate	%	78.5	71.6	70.3	69.7	67.6	69.8	-11.0
Private housing starts	mil. units	1.084	.919	.958	1.114	1.251	1.061	-2.1
Car sales	mil. units	8.6	8.3	7.5	7.8	8.7	7.9	-8.1

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Gross national product,1972$	bil. 1972 $	1475.4	1486.7	1499.5	1517.8	1538.8	1510.7	2.4
Index of industrial product.	1967=100	138.6	138.3	142.1	146.8	152.2	144.9	4.5
Unemployment rate	%	9.7	10.2	10.0	9.6	9.1	10.0	2.8
Capacity utilization rate	%	69.8	68.1	70.7	72.3	75.2	71.6	2.6
Private housing starts	mil. units	1.061	1.428	1.487	1.517	1.418	1.462	38.7
Car sales	mil. units	7.9	8.4	8.6	8.7	9.0	8.7	10.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product,1972$	bil. 1972 $	1510.7	1550.9	1564.7	1581.5	1599.2	1574.1	4.2
Index of industrial product.	1967=100	144.9	153.4	156.3	161.4	166.8	159.5	10.
Unemployment rate	%	10.0	9.0	9.0	8.2	8.0	8.5	-14.5
Capacity utilization rate	%	71.6	16.8	77.4	79.3	79.9	78.1	9.
Private housing starts	mil. units	1.462	1.458	1.593	1.685	1.497	1.558	6.6
Car sales	mil. units	8.7	8.8	8.9	8.8	9.2	9.0	3.4

*Historical data (1) % change over previous year

REAL GROWTH

orders increased to 157.62 in December from the 150.36 level for November last year.

3. As for retail sales, at least they did not decline. The Jan. total just edged above the December figure.

4. Steel output crept forward a bit in the second week of Feb.. The gain over the prior week was just 1.1 per cent. Capacity utilization edged up to 47.4 per cent.

5. Housing starts went bounding ahead. That is seen as temporary due to the mild weather and the initial result of lower interest rates. (See section 1.41 on Housing.)

6. Industrial production increased by 0.9 per cent. That is a healthy figure, but the housing-related and auto components of the gain are not seen here as ever-repeated events. Auto sales for instance plunged down again through mid-February. Production was up in construction supplies, defense, and space equipment. Improvement here has been forecast by KEDI for some time. The fact is that unemployment will remain on the high side while business capital outlays remain low. These add up to mild recovery.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 7)

It is good news that the recovery will not be accompanied by excessive upward pressures on prices. The Consumer Price Index rose just 0.2 per cent in January. That would translate into an annual rate of only 2.1 per cent if it continued all year. Well, it won't. Still, the inflation rate is now seen as being 3.0 per cent this year. Producer prices declined in January. They were lead by an adjusted drop of 4.2 per cent in energy prices. Home heating oil prices declined sharply. That will continue for three or four months and will more than offset the prices gains for natural gas and electricity.

It is important that prices of crude materials have declined. As recovery begins, there will not be excessive increases in raw material prices. That is a good sign.

1.21 PRICES

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Consumer price index,n.s.a.	1967=100	272.4	283.0	287.3	292.8	293.1	289.0	6.0
Producer price index,n.s.a.**	1967=100	269.8	277.7	278.3	281.8	284.6	280.6	4.0
Price deflators:								
GNP	1972=100	195.5	203.6	206.0	208.4	210.4	207.1	5.9
Personal cons. expenditures	1972=100	194.5	202.2	204.0	207.7	210.0	206.0	5.9
Gross private dom.investment	1972=100	184.3	212.3	213.3	214.8	213.5	214.5	16.3
Federal purchases	1972=100	207.4	218.3	221.6	222.9	223.9	221.7	6.9

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	289.0	293.7	295.1	298.3	303.4	297.6	3.0
Producer price index,n.s.a.**	1967=100	280.6	283.8	285.6	287.4	288.5	286.3	2.0
Price deflators:								
GNP	1972=100	207.1	211.8	213.4	215.7	218.2	214.8	3.7
Personal cons. expenditures	1972=100	206.0	212.3	213.3	215.8	218.1	214.9	4.3
Gross private dom.investment	1972=100	214.3	216.4	217.4	219.7	222.4	219.0	2.2
Federal purchases	1972=100	221.7	225.7	228.3	231.7	235.2	230.2	3.9

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	297.6	306.7	311.2	315.3	318.7	313.0	5.2
Producer price index,n.s.a.**	1967=100	286.3	292.8	295.8	299.4	306.4	298.6	4.3
Price deflators:								
GNP	1972=100	214.8	221.5	225.0	228.0	231.4	226.5	5.4
Personal cons. expenditures	1972=100	214.9	220.4	223.7	226.2	228.7	224.8	4.6
Gross private dom.investment	1972=100	219.0	225.3	227.8	231.1	235.4	229.9	5.0
Federal purchases	1972=100	230.2	238.7	242.5	245.7	248.9	244.0	6.0

*Historical data (1) % change over previous year **Finished goods

PRICES

As to energy prices, KEDI anticipates a drop to $28-29 per barrel this month with some slight decreases in the following months. Calculations show that such declines in prices will cause a drop in the Producer Price Index by 1.2-1.4 percentage points and in the Consumer Price Index by 0.7. In KEDI's calculations the effect of the anticipated drop in prices of oil in 1983 is the following (in percentage points): unemployment rate: -.1; auto sales: +3.0; steel shipments: +3.0; housing starts: +1.4; and real GNP: +.1.

1.22 NOMINAL GNP

(Table 1.22 on page 9)

In this issue, KEDI's forecast data of nominal GNP and components has been slightly reduced when compared with the February 1983 forecast. The upward revision of forecast data for real GNP and components has been more than compensated by the downward revision of forecast data for price deflators. As the result, this forecast shows the 6.1 per cent increase in nominal GNP for the year 1983 as compared with previously anticipated 7.2 per cent. For the year 1984 the nominal GNP data has been reduced from 10.6 to 9.9 per cent, respectively.

Calculations show that the anticipated drop in oil prices will not significantly affect the proportions among components of GNP: the fastest growing components will be purchases of goods and services by the federal government due mostly to more defense spending and gross private domestic investment due mostly to the expected buildup of inventories. The anticipated drop in oil prices will not significantly afect the U.S. foreign trade balance either--payments for imported oil will be compensated by increases in imports of raw materials and smaller receipts for exports.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The outlook here remains bleak. Although KEDI is among those that see unemployment for the year close to 10 per cent of the civilian labor force, there are forecasters that look to a rate moving

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3*	4		(1)
Gross national product	bil.$	2937.7	2995.5	3045.2	3088.2	3101.4	3057.6	4.1
Personal cons. expenditures	bil.$	1843.2	1919.4	1947.8	1986.3	2031.5	1971.3	6.9
Gross private dom. investment	bil.$	471.5	414.4	431.5	443.3	392.4	420.4	-10.8
Net exports	bil.$	26.1	31.3	34.9	6.9	.8	18.5	-29.1
Government purchases:								
Federal	bil.$	228.9	249.7	244.3	259.0	277.9	257.7	12.6
State and local	bil.$	368.0	380.4	386.6	392.7	398.9	389.7	5.9

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	3057.6	3149.3	3194.6	3273.6	3357.9	3243.9	6.1
Personal cons. expenditures	bil.$	1971.3	2046.8	2069.0	2107.5	2147.6	2092.7	6.2
Gross private dom. investment	bil.$	420.4	443.0	455.2	475.2	501.5	468.7	11.5
Net exports	bil.$	18.5	-14.3	-19.8	-20.4	-25.6	-20.0	-
Government purchases:								
Federal	bil.$	257.7	269.5	277.4	288.0	298.0	283.2	9.9
State and local	bil.$	389.7	409.3	412.8	423.3	436.4	419.2	7.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3243.9	3435.0	3520.5	3605.9	3701.2	3565.7	9.9
Personal cons. expenditures	bil.$	2092.7	2182.0	2229.4	2270.6	2314.2	2249.1	7.5
Gross private dom. investment	bil.$	468.7	518.9	535.7	554.9	581.1	547.7	16.9
Net exports	bil.$	-20.0	-20.3	-18.5	-16.4	-11.5	-16.7	-
Government purchases:								
Federal	bil.$	283.2	307.7	316.2	325.6	333.8	320.8	13.2
State and local	bil.$	419.2	446.7	457.7	471.2	483.5	464.8	10.9

*Historical data. (1) % change over previous year

EMPLOYMENT AND LABOR

toward 10.5 or more.

Jobless claims were up in late January with over 50,000 citizens making their first-time claim for benefit checks. That is a part of a bleak picture.

The basic reason can be traced to the structural changes in the economy as the shift toward SERVICES and HIGH TECHNOLOGY continues. A permanently lower level of employment will exist in the so-called basic industries of steel, autos, machine tools, and textiles, for example. They will not gain their former pre-eminence in the economic mosaic of this nation.

The forecast of the average workweek of production workers in manufacturing remains the same. It is seen as increasing very gradually from an average of 36 hours per week in the first half of this year to 36.6 in the second part and 37.4 hours in 1984.

1.41 HOUSING

(Table 1.41 on page 13)

The forecast has been slightly revised upwards for the year 1983. Housing starts are seen as being at the 1.5 million level for 1983 and 1.6 million for 1984. KEDI agrees with the forecast of Richard Pratt, chairman of the Federal Home Loan Bank Board as he also sees a total of 1.4 - 1.5 million starts for this year. That is still below more normal levels of the recent past.

Housing starts in January jumped ahead to an adjusted annual rate of 1.7 million-- a gain of 35.9 per cent. However, the unusually mild weather of that month had a great influence.

The basic reason for this Institute's forecast of housing starts is found in the general sluggish economy, high unemployment, and relatively high interest rates. Projected unemployment is simply too high to allow the generation of enough income to pay for more houses and mortgages.

KEDI does not agree that the size of the federal deficit is holding building down. It is not seen here as putting a strain on capital

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3 *	4		
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.2	110.1	110.6	111.0	110.2	1.4
Employment	mil.	100.5	99.7	99.7m	99.6	99.1	99.5	-.8
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.3	96.3	96.3	96.8	96.1	-1.0
Unemployment rate	%	7.62	8.81	9.42	9.97	10.67	9.72	27.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	112.3	113.4	114.5	115.4	113.9	3.4
Employment	mil.	99.5	99.8	102.0	103.5	104.9	102.6	3.1
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.1	96.5	98.6	100.1	101.6	99.2	3.2
Unemployment rate	%	9.72	10.17	10.01	9.64	9.14	9.99	2.8

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	233.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	113.9	116.3	117.2	118.3	119.4	117.8	3.4
Employment	mil.	102.6	105.8	106.7	108.6	109.9	107.7	5.0
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.2	102.5	103.3	104.2	106.6	104.3	5.1
Unemployment rate	%	0.99	9.02	8.97	8.20	7.96	8.54	-14.5

*Historical data (1) % change over previous year

capital markets. That has been stated here before. There is capital available from other sectors of the economy. HUGE FEDERAL BUDGET DEFICITS WILL NOT PUSH HOUSING DOWN.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

During January, auto production had a sharp increase of 10 per cent. That is not the start of a trend. KEDI agrees with Mr. Sinai of Data Resources that auto recovery will move in "fits and starts."

The mid-February auto sales slid down by 12.7 per cent compared with the same selling period of a year ago. That was also the second straight period in which sales dropped below year-earlier levels. The daily selling rate was the worst since the 1961 mid-February total. If it were not for the sales campaigns, the total would have been even lower.

The decline again points to the fact that there will be no dramatic increase in sales. Hence, there will not be any significant gains in production and employment in the struggling auto industry.

This Institute predicts 8.7 million car sales for the year 1983. The 1984 total is calculated at a slightly higher 8.9 million. Both are below more normal rates of around 10 million.

KEDI projections show that ambitious plans of auto executives will be trimmed. Their production schedules will be at 6.4-7.0 million levels.

1.50 BUDGETS

(Table 1.50 on page 17)

The forecast of the fiscal 1983-88 federal budget deficits remains essentially unchanged. It is based on the assumption that no additional federal taxes will be imposed during that period and that budget cuts and other reductions will be

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3*	4		(1)
Single-family housing starts	mil.	.706	.586	.603	.638	.795	.656	-7.1
Multifamily housing starts	mil.	.379	.333	.355	.476	.456	.405	6.9
Mobile home shipments	mil.	.241	.238	.246	.234	.231	.238	1.2
Permits authorized	mil.	.969	.832	.924	1.114	1.223	1.023	5.6
1-family unit** price, new	tho.$	83.1	80.8	85.9	92.0	96.9	88.9	7.0
1-family unit** price,existing	tho.$	78.0	79.2	80.8	83.0	87.0	82.5	5.8

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.656	.914	.934	.945	.862	.916	39.6
Multifamily housing starts	mil.	.405	.514	.553	.572	.546	.546	34.8
Mobile home shipments	mil.	.238	.254	.272	.288	.274	.272	17.7
Permits authorized	mil.	1.023	1.282	1.394	1.499	1.374	1.387	35.6
1-family unit** price, new	mil.	88.9	98.5	101.8	103.5	105.7	102.4	15.1
1-family unit** price,existing	tho.$	82.5	89.3	92.1	95.4	98.2	93.8	13.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.916	.882	.976	1.041	.895	.949	3.6
Multifamily housing starts	mil.	.546	.576	.617	.644	.602	.610	11.7
Mobile home shipments	mil.	.272	.256	.280	.302	.301	.285	4.8
Permits authorized	mil.	1.387	1.362	1.447	1.509	1.489	1.452	5.1
1-family unit** price, new	tho.$	102.4	107.9	111.8	114.9	117.2	113.0	10.4
1-family unit** price,existing	tho.$	93.8	99.5	102.6	104.9	107.4	103.6	11.3

*Historical data (1) % change over previous year **Not seas. adjusted

of the size and type recently proposed. The five main proposals made by President Reagan are repeated here.

1. Carry on with the July first tax cut
2. Freeze federal pay for a year.
3. Reduce defense by about $10 billion a year from 1984 through 1988.
4. Putting a 1 per cent surcharge on individual and corporate taxes and another $5 per barrel tax on oil starting in 1986.
5. Cut non-defense programs by roughly 2 per cent in fiscal 1984.

KEDI supports the stand of our President. He also recently said he would veto any move to repeal tax indexing or scale back the scheduled July income tax reduction. This not the time for more taxes. Once a recovery is well on its way is the time. Late 1985 or 1986 seems about the right time to both KEDI and the President for more taxes such as the added $5 on oil. Tax indexing that will be reality in 1985 is supported here. It will help prevent inflation from pushing taxpayers into higher brackets.

Projection shows that state and local taxes will be increasing heavily between this year and 1988. Social security taxes will also continue upward. These two together will put a heavier burden on citizens and the indexing will be at least some relief.

State and local budgets The projection here of surpluses has been reduced. Larger expenditures are now seen over the next few years than had been forecast previously by KEDI. The expected tax hikes will not entirely match higher expenses. Consequently, there will be smaller surpluses of all states considered together. (KEDI presents state budget information based on U.S. Department of Commerce data which is calendar year and includes contributions to social insurance funds.)

1.60 INCOME

(Table 1.60 on page 19)

Personal income remained virtually unchanged in January. Such data do not point to anything like "let the good times roll."

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*		1982			1982	% (1)
			1*	2*	3*	4		
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	8.7	7.9	-8.1
Domestic	mil.	6.3	6.0	5.5	5.5	6.1	5.7	-9.5
Imported	mil.	2.3	2.3	2.0	2.2	2.5	2.2	-4.4
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.5	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	1.9	5.0	-1.6
Light-duty truck sales	mil.	1.7	2.2	2.1	2.0	2.1	2.1	23.5

Indicator	Unit	1982		1983			1983	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	7.9	8.4	8.6	8.7	9.0	8.7	10.1
Domestic	mil.	5.7	6.3	6.4	6.7	6.9	6.6	15.7
Imported	mil.	2.2	2.1	2.2	2.0	2.1	2.1	-4.5
Dealers inventories**	mil.	1.4	1.7	1.9	1.9	1.8	1.8	28.6
Factory shipments**	mil.	5.0	6.2	6.3	6.6	6.7	6.4	28.0
Light-duty truck sales	mil.	2.1	1.9	2.2	2.0	2.1	2.2	4.8

Indicator	Unit	1983		1984			1984	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.7	8.8	8.9	8.8	9.2	9.0	3.4
Domestic	mil.	6.6	6.8	7.1	7.1	7.2	7.1	7.6
Imported	mil.	2.1	2.0	1.8	1.7	1.9	1.9	-9.5
Dealers inventories**	mil.	1.8	1.9	2.0	1.9	1.9	1.9	5.6
Factory shipments**	mil.	6.4	6.8	7.2	6.9	7.1	7.0	9.4
Light-duty truck sales	mil.	2.2	2.1	2.3	2.4	2.2	2.3	4.5

*Historical data (1) % change over previous year **Seas. not adjusted

INCOME

They haven't really started yet, and, frankly, they won't, but the economy will creep ahead. Some sectors will not budge much at all. If one takes into account the following two factors, there is not any bright outlook for significant increases in personal income this year.

1. High unemployment that will persist in 1983
2. Small cost-of-living adjustments in wages and salaries due to the expected slow inflation rate.

The forecast of average weekly earnings of factory workers has been decreased slightly for 1983 and following years. This is mainly due to the downward revision of consumer price forecasts and the resulting downward revision of the cost-of-living wage changes.

The forecast of corporate profits remains essentially the same. They will rise by 10.3 per cent this year, and 1984 profits will exceed 1983 by 16.0 per cent. That is, the 1984 after-tax profits will again reach the level of 1980.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The projection of monetary aggregates for 1983 remains essentially unchanged. It is within the limits recently approved by the Fed's Open Market Committee for M1 and just at the upper limit for M2 as can be seen here.

	Target Ranges in 1983	KEDI's Projection
M1	4 - 8%	6.2%
M2	7 -10%	10.0%

The Fed's targets for M1 are both broader and higher than they were last year. Then, the M1 target was 5.5 per cent. If they will allow M1 to grow close to the upper target, there will be a need for more restrictive monetary and credit policies.

KEDI maintains the assumption that in the second part of this year and during 1984, the Federal Reserve will continue to fight against

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2 *	3*	4		
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	295.6	299.2	300.1	.7
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	49.8	50.6	47.8	-29.0
Surplus/deficit	bil.$	-60.0	-118.4	-119.6	-156.0	-186.9	-145.2	242.0
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	98.8	100.4	97.1	9.6
Corporate prof. tax accruals	bil.$	10.1	10.1	10.2	10.2	11.2	10.4	3.0
Surplus/deficit	bil.$	31.7	27.7	32.1	32.3	32.0	31.0	-2.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	300.1	303.5	308.2	298.6	308.8	304.8	1.6
Corporate prof. tax accruals	bil.$	47.8	53.1	60.4	64.8	70.1	62.1	29.9
Surplus/deficit	bil.$	-145.2	-190.2	-196.8	-208.9	-190.4	-196.6	35.4
State and local governments:								
Income taxes	bil.$	97.1	103.7	108.0	112.4	113.9	109.5	12.8
Corporate prof. tax accruals	bil.$	10.4	12.2	13.3	13.9	14.4	13.5	29.8
Surplus/deficit	bil.$	31.0	32.9	34.5	35.1	34.8	34.3	10.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	304.8	314.6	325.1	336.4	348.1	331.1	8.6
Corporate prof. tax accruals	bil.$	62.1	74.1	79.2	83.5	86.2	80.1	29.0
Surplus/deficit	bil.$	-196.6	-160.3	-146.5	-131.1	-118.7	-139.2	-21.2
State and local governments:								
Income taxes	bil.$	109.5	114.0	117.1	123.9	127.2	120.6	10.1
Corporate prof. tax accruals	bil.$	13.5	15.5	16.8	17.4	18.4	17.0	25.9
Surplus/deficit	bil.$	34.3	34.7	34.8	35.2	35.8	35.2	2.6

*Historical data (1) % change over previous year

MONEY AND CREDIT

inflation by moderately restrictive policy. The view that the new targets will set the stage for lower interest rates and bolster recovery is shared here. It corresponds with the logical assumption observed by Mr. Volcker that slower growth in the supply of money and low inflation levels are consistent with interest rates moving down.

The recent efforts of the Open Market Committee to emphasize CREDIT GROWTH are supported at this Institute. Their published expected growth range for domestic nonfinancial debt is in the 8.5-11.5 range. Such debt has grown at an average of about 8.7 pet cent in recent years.

Standard money measures are becoming less and less meaningful. It is a step in the right direction for the Open Market Committee to take the step mentioned. Today, nonfinancial credit growth--tomorrow, all credit aggregates? That would be a capital idea.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 22)

Since 1981, KEDI had been projecting that interest rates in 1983 would edge down for most of the year and then go up a bit at the end of the year. In 1981 and in current issues, 1984 has been seen as relatively stable in terms of such rates.

The general trend forecast is maintained, but there is a reduction of roughly 1 percentage point in the forecast for interest rates when compared with the projection in the last issue.

For example, the prime rate is now seen as averaging 10 per cent this year, whereas it was put in the 10.5-11.0 bracket formerly. The mortgage rate is now seen as being in the 11.7 per cent range as opposed to an average of 12.4 cited in the last issue.

Concerning the mortgage rate, projections here show that we are still a long way indeed from rates 7-8 per cent that were the norm in 1976-77. This Institute does not even agree that rates 9-10 per cent are likely. Such figures were mentioned by Housing Secretary Samuel Pierce as being possible later this year. There is no change in the forecast of the stock market.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3 *	4		
Personal income	bil.$	2415.8	2510.5	2552.7	2592.5	2626.9	2570.6	6.4
Personal disposable income	bil.$	2029.1	2117.1	2151.5	2198.1	2227.1	2173.5	7.1
Compensation of employees	bil.$	1767.6	1819.9	1850.8	1868.3	1875.9	1853.8	4.9
Corporate after tax profits	bil.$	150.9	115.9	116.3	119.4	118.5	117.5	-22.1
Personal saving	bil.$	130.2	139.1	144.3	152.0	135.3	142.7	9.6
Average weekly earnings	$	316.8	323.4	329.8	332.9	334.1	330.1	4.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Personal income	bil.$	2570.6	2654.4	2691.1	2733.2	2782.0	2715.2	5.6
Personal disposable income	bil.$	2173.5	2247.2	2274.9	2322.2	2359.3	2300.9	5.9
Compensation of employees	bil.$	1853.8	1899.0	1939.6	1952.4	1998.7	1947.4	5.0
Corporate after tax profits	bil.$	117.5	122.4	127.6	132.7	135.8	129.6	10.3
Personal saving	bil.$	142.7	140.2	145.6	154.3	151.1	147.8	3.6
Average weekly earnings	$	330.1	335.2	342.1	350.7	354.2	345.6	4.7

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2715.2	2826.3	2892.0	2955.5	3018.6	2923.1	7.7
Personal disposable income	bil.$	2300.9	2397.7	2449.8	2495.2	2453.3	2471.5	7.4
Compensation of employees	bil.$	1947.4	2031.5	2126.4	2169.7	2223.5	2137.8	9.8
Corporate after tax profits	bil.$	129.6	139.8	148.2	155.1	158.3	150.3	16.0
Personal saving	bil.$	147.8	154.8	159.2	162.3	166.7	160.8	8.8
Average weekly earnings	$	345.6	362.1	367.2	372.3	377.2	369.7	7.0

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Car Sales for the year 1982 has been selected for comparison. The actual figure has been calculated from the Survey of Current Business, Blue pages, No. 1, January 1983 (U.S. Department of Commerce, Washington, D.C., monthly) and the February 1983 Department of Commerce release on Car Sales. Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982.) The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Car Sales, mil. units)

Actual figure: 7.9

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
AmeriTrust Company	11/81	9.2	14	16.5
Georgia State University	11/81	8.98	15	13.7
Chemical Bank	11/19/81	9.2	18	16.5
UCLA	12/81	8.3	20	5.1
The Philadelphia National Bank	12/10/81	9.4	23	19.0
Standard & Poor's Corporation	12/10/81	9.1	24	15.2
KEDI	1/1/82	8.3	28	5.1
The First National Bank of Chicago	1/5/82	9.8	29	24.1

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3 *	4		
Currency and demand deposits, M1	bil.$	429.6	448.0	451.8	455.7	472.8	475.1	6.4
Time deposits, adjusted, M2	bil.$	1741.7	1851.1	1895.4	1941.9	1983.4	1918.0	10.1
Consumer instal. credit	bil.$	333.4	327.1	331.9	335.9	345.1	345.1	3.5
Commerc.& indus. loans at banks	bil.$	360.2	369.0	385.1	394.4	395.7	395.7	9.9
Large denomination time dep.	bil.$	295.4	307.7	322.4	338.2	342.5	327.7	10.9
Mortgages at S & L Assns.	bil.$	518.4	515.9	512.7	495.4	491.5	491.5	-5.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	475.1	477.3	484.2	492.1	499.6	488.5	6.9
Time deposits, adjusted, M2	bil.$	1918.0	2031.9	2086.8	2170.4	2208.3	2124.5	10.8
Consumer instal. credit	bil.$	345.1	354.0	359.6	366.4	373.6	373.6	8.3
Commerc.& indus. loans at banks	bil.$	395.7	409.0	412.7	418.0	429.6	429.6	8.6
Large denomination time dep.	bil.$	327.7	354.3	356.2	362.1	370.4	360.8	10.1
Mortgages at S & L Assns.	bil.$	491.5	497.9	505.4	513.7	523.9	523.9	6.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	488.5	506.8	516.1	529.4	543.1	523.9	7.2
Time deposits, adjusted, M2	bil.$	2124.5	2240.3	2287.2	2336.4	2411.5	2318.9	9.1
Consumer instal. credit	bil.$	373.6	381.1	389.3	398.6	405.1	405.1	8.4
Commerc.& indus. loans at banks	bil.$	429.6	427.8	452.9	460.4	469.8	469.8	9.4
Large denomination time dep.	bil $	360.8	365.3	379.5	388.4	400.3	383.4	6.4
Mortgages at S & L Assns.	bil.$	523.9	533.3	545.7	555.8	567.7	567.7	8.4

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	8.10	7.91	10.20	-27.3
Prime rate	%	18.87	16.27	16.50	14.72	11.96	14.86	-21.2
Conventional mortgages rate	%	16.52	17.10	16.58	14.80	13.79	15.57	-5.3
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	11.88	13.78	-2.8
20 years Govt. bonds yield	%	13.72	14.27	13.80	12.01	10.72	12.70	-7.4
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	113.82	138.71	120.23	-6.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	10.20	7.84	7.71	7.83	7.92	7.83	-23.2
Prime rate	%	14.86	10.76	10.14	10.02	10.17	10.27	-30.9
Conventional mortgages rate	%	15.57	13.14	12.71	12.24	11.14	12.31	-20.9
Aaa corporate bonds rate	%	13.78	11.65	11.14	11.22	11.38	11.35	-17.6
20 years Govt. bonds yield	%	12.70	11.12	11.53	11.67	11.59	11.48	-9.6
Standard & Poor's 500 avg.	1941-43=100	120.23	134.10	130.27	126.51	128.14	129.76	7.9

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	7.83	8.64	8.78	9.45	10.14	9.25	18.1
Prime rate	%	10.27	10.48	10.78	11.34	11.72	11.08	7.9
Conventional mortgages rate	%	12.31	11.03	10.84	11.14	11.27	11.07	-10.9
Aaa corporate bonds rate	%	11.35	11.22	11.04	11.06	11.35	11.17	-1.6
20 years Govt. bonds yield	%	11.48	11.73	11.79	11.91	11.84	11.82	3.0
Standard & Poor's 500 avg.	1941-43=100	129.76	129.56	131.47	132.56	130.47	131.02	1.0

*Historical data (1) % change over previous year

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972S	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr. loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

U2635-LB

KEDI ECONOMIC SURVEY

APRIL 1983 ISSUE

**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 10, April 1, 1983

KEDI ECONOMIC SURVEY

APRIL 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to:KEDI ECONOMIC SURVEY,Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent OH 44242, U.S.A. Kent State University Foundation, Inc.,and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 048300824
KEDI April 1, 1983

© Kent Economic and Development Institute

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

April 1, 1983

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

- 1.01 EXECUTIVE SUMMARY 1
- 1.02 OVERVIEW 1
- 1.03 ASSUMPTIONS 2

2.00 DETAILED FORECASTS

- 1.10 REAL GROWTH 3
- 1.20 PRICES AND NOMINAL GNP 7
- 1.30 EMPLOYMENT AND LABOR 10
- 1.41 HOUSING 10
- 1.42 AUTOMOBILES 12
- 1.50 BUDGETS 12
- 1.60 INCOME 16
- 1.70 MONEY AND CREDIT 18
- 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 18

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 23

4.00 HISTORICAL DATA SOURCES 24

TABLES

- 1.00 KEDI FORECAST HIGHLIGHTS 4
- 1.10 REAL GROWTH 5
- 1.21 PRICES 9
- 1.22 NOMINAL GNP 11
- 1.30 EMPLOYMENT AND LABOR 13
- 1.41 HOUSING 14
- 1.42 AUTOMOBILES 15
- 1.50 BUDGETS 17
- 1.60 INCOME 19
- 1.70 MONEY AND CREDIT 21
- 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 22
- 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 23
- 3.00 HISTORICAL DATA SOURCES 24

This forecast uses the March, 1983, U.S. Department of Commrece third estimates of 1982:4 National Income and Product data. Also used is the March 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Real GNP is now seen at 2.6 per cent higher this year than in 1982. When looking at the change from the fourth quarter of last year to the last quarter of the current year, the figure is 4.4 per cent which is just a bit lower than Reagan's late-March revision to 4.7 per cent. REAL GROWTH The outlook for slow growth remains. High unemployment and interest rates and low levels of gains in basic industries will prevent any significant expansion. Retail sales, machine tool orders and factory orders were off, but there were gains in industrial production, shipments, and operating rates. PRICES Inflation is forecast at 2.9 per cent for 1983. EMPLOYMENT The current forecast of average unemployment this year is about 9.7 per cent. It will edge down each quarter. HOUSING The forecast is increased slightly here to 1.6 million starts. Although starts were strong in Feb, there was weakness in the important single-family category. AUTOS There is no change in the projection. Gradual gains throughout the year will help, but production will still be on the low side. BUDGETS KEDI forecasts the fiscal '83 and '84 budget deficits of $202 billion and $178 billion, respectively. That will not stifle recovery. INCOME Although personal income will move up a bit this year, disposable income will not as state and local taxes get a larger share. MONEY AND CREDIT Growth in M1 will exceed targets, but that will not nudge inflation ahead. INTEREST RATES The prime rate will end the year in the 10 - 11 per cent range. Long-term rates will take a snail's pace in moving down through the year.

1.02 OVERVIEW

President Reagan announced on March 25 that the revised forecast of the Administration showed growth would be at 4.7 per cent in terms of real GNP BETWEEN THE FOURTH QUARTER OF 1982 AND THE FOURTH QUARTER OF THIS YEAR. The reader can see KEDI's quarterly figures for GNP on page 5 of the March issue. The percentage change

OVERVIEW

came out to 4.4 per cent. So, by that measure KEDI was just slightly less optimistic than the Administration.

The more common method of dealing with growth is to use the average yearly change in real GNP. By that measure, KEDI now looks to a 2.6 per cent expansion this year. (That is up from the March issue figure. The early strength in housing starts in the face of continued unemployment had not been fully anticipated here and is the main reason for the revision.)

The country is edging out of the recession. The delicate condition of the economy means it does need special pampering. Spring blossoms do best with tender care, fertilizer, sun, and water. While a plant is blossoming is no time to see how it will do with less. The blossoms of growth in the economy could wilt if the stubborn budget balancers have their way.

The proposals they have made to cut the defense budget and increase taxes would really nip any growth right in the bud. Cuts mean less income. That means less to spend and lower demand. When demand goes down, less is bought. That leads to less output which bring about more unemployment. Taxes collected then go down, and so it goes. Projections show that 1985 will be the time to take such steps AND NOT BEFORE as recovery will be solidly established then.

Commerce Secretary Malcolm Baldrige predicted a strong recovery in early March. He cited inventory reduction, fourth quarter sales, and lower oil prices in particular as the reasons he felt the Administration estimates of growth made last fall were conservative-- 3 per cent in the second quarter and 4 per cent in each of the last two quarters of this year. Again, KEDI does not agree. Recovery will not be that strong.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No.1 and No.6 have been updated.

ASSUMPTIONS

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; and in 1986, $32 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1986 period. In the first half of 1983 some relaxation, and in the second half of 1983 stabilizing is expected.
4. Increases in state and local taxation in 1983-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1983 and the following years.
6. In 1983 and 1984 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China in these years. U.S. record crops are expected in 1985-1986.
7. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.
8. No drastic changes in international relationships are assumed.

The April 1983 KEDI forecast is highlighted on page 4.

1.10 REAL GROWTH

(Table 1.10 on page 5)

The projection here of real GNP growth has been changed from 2.4 to 2.6 per cent for 1983. KEDI is in agreement with the average of the 46 forecasters covered by Blue Chip Economic Indicators. That average also increased this month. The growth figure in the 4 - 5 per cent range mentioned by the Administration and others is seen as too high given the outlook for unemployment and interest rates--to mention only two aspects that are not seen here as changing much this year.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1983	1985	1986
Gross national product	bil. 1972$	1502.6	1476.1	1649.9	1722.8
Index of indus. production	1967= 100	151.0	138.6	175.1	188.2
Capacity utilization	%	78.5	69.8	80.1	81.9
Unemployment rate	%	7.6	9.7	7.3	6.9
Private housing starts	mil.	1.084	1.061	1.707	1.704
Car sales	mil.	8.6	7.9	9.9	10.6
Implicit GNP price deflator	1972= 100	195.6	207.1	235.2	247.3
Consumer price index	1967= 100	272.4	289.0	328.1	346.2
Producer price index*	1967= 100	269.8	280.6	332.9	351.4
Federal deficit	bil.$	-60.0	-149.3	-101.2	-69.3
Personal income	bil.$	2415.8	2569.9	3231.4	3462.8
Prime rate	%	18.87	14.86	11.22	11.07
Mortgage rate	%	16.52	15.57	11.50	11.38
Currency plus demand deposits	bil.$	429.6	475.4	573.2	620.7
Commercial and industrial loans	bil.$	360.2	395.7	508.2	541.3

* Finished goods

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally
adjusted at annual rates)

Indicator	Unit	1981*	1982 1 *	2 *	3 *	4	1982	% (1)
Gross national product, 1972$	bil. 1972 $	1502.6	1470.7	1478.4	1478.4	1477.2	1476.1	-1.2
Index of industrial product.	1967=100	151.0	141.6	139.2	138.2	135.2	138.6	-8.2
Unemployment rate	%	7.6	8.8	9.4	10.0	10.7	9.7	27.6
Capacity utilization rate	%	78.5	71.6	70.3	69.7	67.6	69.8	-11.0
Private housing starts	mil. units	1.084	.919	.958	1.114	1.251	1.061	-2.1
Car sales	mil. units	8.6	8.3	7.5	7.8	8.7	7.9	-8.1

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Gross national product, 1972$	bil. 1972 $	1476.1	1488.7	1504.6	1520.7	1541.2	1513.8	2.6
Index of industrial product.	1967=100	138.6	137.6	141.2	145.9	150.7	143.9	3.8
Unemployment rate	%	9.7	10.3	10.2	9.7	9.3	9.8	1.5
Capacity utilization rate	%	69.8	68.3	70.4	72.1	75.2	71.5	2.5
Private housing starts	mil. units	1.061	1.450	1.516	1.558	1.504	1.514	42.7
Car sales	mil. units	7.9	8.4	8.6	8.7	9.0	8.7	10.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product, 1972$	bil. 1972 $	1513.8	1554.8	1569.8	1584.2	1605.3	1578.5	4.3
Index of industrial product.	1967=100	143.9	153.4	156.1	160.5	165.4	158.9	10.4
Unemployment rate	%	9.8	9.1	8.9	8.6	8.2	8.7	-11.8
Capacity utilization rate	%	71.5	76.8	77.4	79.3	79.9	78.1	9.1
Private housing starts	mil. units	1.514	1.479	1.651	1.765	1.588	1.621	7.1
Car sales	mil. units	8.7	8.8	8.9	8.8	9.2	9.0	3.4

*Historical data (1) % change over previous year

REAL GROWTH

KEDI agrees with Martin Feldstein of the President's Council that excessive optimism needs to be curtailed. Recent favorable news doe not mean there is strength and durability everywhere.

As to interest rates, they will remain on the high side. In historical terms, recent declines do not amount too much. Double-digit levels are going to remain. This Institute shares the view of Michael Evans that rates will stay near their current levels for the rest of this year and edge up some in 1984.

The main reason the forecast in this issue has been increased somewhat in terms of GNP is that there is a ripple effect from recent lower oil prices and additional revisions made in the forecasts for the housing industry, inventories changes, and some other sectors.

Still, both the growth for 1983 seen in recent issues and this current one can only be called slow growth. Basically, the interest rates are an important factor in the slowness.

Secondly, the level of unemployment being and remaining in the 9-10 per cent range for this year contributes to slow recovery. Those out of work are obviously not producing and are consuming much less.

Thirdly, the U.S. position in relation to other countries goods and services is not exactly at a high point. Our export-import relationship is not going to improve much. The high value of dollars has contributed to a decline in exports. The dollar will likely edge down more in relation to other currencies later this year, but the change will not be of great help to exports.

The economic news continues to be fairly mixed which lends support to the outlook for growth of a mild nature. Three areas showed declines.

1. Retail sales were down by 0.4 per cent in February, seasonally adjusted. Also, the January figure which had been shown as posting a bit of gain in preliminary estimates, was sharply revised to show that month also was down. The revised figure was 0.5 per cent as a decline in the first month of 1983.

2. Machine tool orders were off by 24 per cent in January. They were

55 per cent below the level of a year earlier.

3. Factory orders for durable goods declined, seasonally adjusted, by 4 per cent. A drop in defense orders was mainly responsible.

4. Industrial production crept ahead in February. It reached 137.3 per cent of the 1967 average as compared to the January level of 136.9.

5. The survey of purchasing managers indicated that 58 per cent of them feel the first quarter of this year will be better than the final three months of 1982. Higher output was reported by 40 per cent of the managers as opposed to just 24 per cent in Jan.

6. During February, the nation's factories were operating at 68.5 per cent capacity--just a tad above the revised adjusted rate in January of 68.3 per cent. That is slow and low.

7. Steel production moved ahead in the second week of March. Still, production was at 25 per cent of capacity as compared with 50.3 per cent in the prior week. Production so far this year has been about 23 per cent lower than in the comparable period a year ago.

8. Factory shipments did rise in January, according to data released in early March. There was an adjusted gain of $3.4 billion to $156.2 billion.

9. Leading indicators gained for the fifth month in a row in January. The index was up by 3.6 per cent.

10. Housing starts were up by 2.9 per cent in February.

11. The "flash" projection based on partial first quarter data reflects a gain in GNP of 4 per cent, according to the Commerce Department. Given sectors of the economy that will continue to present problems that have been outlined here, such a rate is not sustainable for the year. It is very premature to project that rate in an optimistic frenzy as the rate likely for the whole year.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

In this issue, the forecast for the inflation rate as measured by

PRICES

the CPI is moved down from 3.0 to 2.9 per cent for 1983. The outlook for the PPI is somewhat changed by being reduced to 1.9 from 2.0 per cent for this year.

The reason lies with the drop in gasoline prices which were mainly responsible for the 0.2 per cent drop in the CPI in February. That was only the second time since 1965 that there has been a decline in prices instead of the steady advance.

The KEDI forecast of other items such as clothing, entertainment, and food remains the same. There certainly is no change in the outlook for the continued rise of medical costs--still seen as jumping up by 10 per cent this year. Hospital charges charged ahead by 1.6 per cent in February, and doctors were charging 1.0 per cent more.

KEDI obviously does not agree with the Administration's new forecast of inflation being 4.5 per cent this year. Low rates of change in energy prices are one factor. High unemployment and not much zip in demand are other factors.

Mr. Ratajczak of Georgia State forecasts inflation at 4 per cent this year. That is also seen as too high.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

KEDI's forecast data of nominal GNP and components has been slightly increased when compared with the March 1983 forecast due to the general upward revision of forecast data for the real GNP and components. The revised data have not affected the proportions among components of GNP: the fastest growing component remain federal purchases due mostly to more defense spending, and gross private domestic investment due mostly to the expected buildup of inventories. The unfavorable relation between exports and imports has been slightly reduced when compared with the previous forecast.

1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2*	3*	4	1982	% (1)
Consumer price index,n.s.a.	1967=100	272.4	283.0	287.3	292.8	293.1	289.0	6.0
Producer price index,n.s.a.**	1967=100	269.8	277.7	278.3	281.8	284.6	280.6	4.0
Price deflators:								
GNP	1972=100	195.5	203.6	206.0	208.4	210.4	207.1	5.9
Personal cons. expenditures	1972=100	194.5	202.2	204.0	207.7	210.0	206.0	5.9
Gross private dom. investment	1972=100	184.3	212.3	213.3	214.8	213.4	214.5	16.3
Federal purchases	1972=100	207.4	218.3	221.6	222.9	223.5	221.7	6.9

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Consumer price index,n.s.a.	1967=100	289.0	293.7	294.9	297.9	302.2	297.2	2.8
Producer price index,n.s.a.**	1967=100	280.6	283.8	285.3	287.3	288.4	286.2	2.0
Price deflators:								
GNP	1972=100	207.1	211.8	213.4	215.6	218.3	214.8	3.7
Personal cons. expenditures	1972=100	206.0	211.2	213.0	214.3	216.3	213.7	3.7
Gross private dom. investment	1972=100	214.3	214.4	218.6	219.3	221.4	218.4	1.9
Federal purchases	1972=100	221.7	225.7	228.3	231.7	235.2	230.2	3.9

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Consumer price index,n.s.a.	1967=100	296.8	305.7	309.8	313.2	316.1	311.2	4.9
Producer price index,n.s.a.**	1967=100	286.3	292.8	295.8	299.4	306.4	298.6	4.3
Price deflators:								
GNP	1972=100	214.8	221.6	225.0	228.3	231.4	226.6	5.5
Personal cons. expenditures	1972=100	213.7	220.0	224.9	228.4	230.6	226.0	5.8
Gross private dom. investment	1972=100	218.4	225.3	227.8	231.1	235.4	229.9	5.3
Federal purchases	1972=100	230.2	238.7	242.5	245.7	248.9	244.0	6.0

*Historical data (1) % change over previous year **Finished goods

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The unemployment rate remained at 10.4 per cent in February. Officially 11.4 million Americans were out of work. The forecast here is not changed. KEDI calculates that joblessness will average close to 9.7 per cent this year and will be lower toward the end of the year than it is in the first part. It will edge down some more during 1984 but still remain above more "normal" rates of roughly 5.5 per cent. The outlook here is that the unemployment rate will be in the 8.5 per cent range as an average for 1984.

KEDI has been a bit more optimistic than the Congressional Budget Office. Last month, they cited the jobless rate as remaining above 10 per cent this year. KEDI agrees with Reagan that unemployment will go below 10 per cent this year. Here it is seen just above 9 per cent in the fourth quarter.

The forecast of the average workweek of production workers in manufacturing has been slightly increased. It will be increasing very gradually from an average of 36.1 hours per week in the first half of this year to 36.8 in the second part and 37.6 hours in 1984.

1.41 HOUSING

(Table 1.41 on page 14)

Housing starts rose by a seasonally adjusted 2.9 per cent in mild February to an annual rate of 1.756 million units. That was a gain of 93 per cent over the year-earlier figure (A depressed month, indeed.) It is of concern that single-family units started dropped by 8.5 per cent in February whereas multi family starts which make up a small portion of the total moved ahead by 25.4 per cent.

The lack of strength in single-family units is one of the reasons to be cautious about jumping to conclusions about a "boom" in housing. The National Association of Home Builders raised its forecast for 1983. Still, it is a conservative one. They now look to a total of 1.448 million starts this year.

KEDI has moved its forecast up slightly from a total for 1983 of

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Gross national product	bil.$	2937.7	2995.5	3045.2	3088.2	3108.2	3059.3	4.1
Personal cons. expenditures	bil.$	1843.2	1919.4	1947.8	1986.3	2030.8	1971.1	6.9
Gross private dom. investment	bil.$	471.5	414.4	431.5	443.3	391.5	420.2	-10.9
Net exports	bil.$	26.1	31.3	34.9	6.9	9.1	20.6	-21.9
Government purchases:								
Federal	bil.$	228.9	249.7	244.3	259.0	278.7	257.9	12.7
State and local	bil.$	368.0	380.4	386.6	392.7	398.0	389.9	5.8

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product	bil.$	3059.3	3153.2	3211.3	3278.3	3364.3	3251.8	6.3
Personal cons. expenditures	bil.$	1971.1	2049.3	2083.1	2100.0	2163.7	2099.0	6.5
Gross private dom. investment	bil.$	420.2	433.0	445.2	465.2	491.5	458.7	9.1
Net exports	bil.$	20.6	-7.4	-6.8	-1.7	-6.9	-5.7	-
Government purchases:								
Federal	bil.$	257.9	275.1	281.2	291.4	297.2	286.0	10.9
State and local	bil.$	389.9	403.2	408.6	413.4	418.8	411.0	5.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product	bil.$	3251.8	3444.8	3531.6	3616.9	3715.0	3577.1	10.0
Personal cons. expenditures	bil.$	2099.0	2204.6	2265.2	2327.2	2390.3	2296.9	9.4
Gross private dom. investment	bil.$	458.7	518.9	535.7	554.9	581.1	547.7	16.9
Net exports	bil.$	-5.7	-4.2	-4.8	-10.9	-14.5	-8.6	-
Government purchases:								
Federal	bil.$	286.0	302.4	307.2	310.8	318.0	309.6	8.3
State and local	bil.$	411.0	423.1	428.3	434.6	440.1	431.5	5.0

*Historical data (1) % change over previous year

HOUSING

1.5 to 1.6 million units. This Institute is in rough agreement with Mr. Strazsheim of Wharton Econometric in that it is a good sign that there have been two straight months of gain in housing. However, their forecast for 1984 of almost 2 million starts is viewed here as too high. KEDI puts that total at 1.7 million.

The average price of a new house purchased in January was a whopping $91,800. Certainly, a lot of luxury homes were sold. The average American family with income in the middle $20,000 range could hardly afford that cost.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast is not changed. Data of production and sales through mid-March do not point to any great rush or change in the intentions of buyers. Sales were off 3.4 per cent in February. In early March sales of new cars were up by 2.7 per cent from the year-earlier period. My mid-March the increase was 6.6 per cent. Still, auto sales are and will remain far below "normal." Production was in the 8-8.5 million range in the decade of the seventies and in the early part of this current decade.

The annual rate of sales of domestically produced cars for January of 1983 was 5.9 million; February was 6.0; and March is projected at 6.3 million by this Institute. There will be gradual improvement throughout this year. The quarterly rates are given here.

Domestic Car Sales, 1983, by
Quarter (in millions)

I	6.1
II	6.3
III	6.7
IV	6.8

The forecast of light truck sales also remains the same.

1.50 BUDGETS

(Table 1.50 on page 17)

KEDI maintains its prediction that gargantuan deficits will not destroy the recovery. Calculations show that there will be enough

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1 *	2 *	3*	4		
Population	mil.	225.9	228.4	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.2	110.1	110.6	111.0	110.2	1.4
Employment	mil.	100.5	99.7	99.7	99.6	99.1	99.5	-.8
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.3	96.3	96.3	95.8	96.1	-1.0
Unemployment rate	%	7.62	8.81	9.42	9.97	10.67	9.72	27.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	112.3	113.4	114.5	115.4	113.9	3.4
Employment	mil.	99.5	100.7	101.9	103.8	105.0	102.8	3.3
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.1	97.4	98.5	100.5	101.6	99.5	3.5
Unemployment rate	%	9.72	10.31	10.17	9.67	9.34	9.87	1.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	113.9	116.3	117.2	118.3	119.4	117.8	3.4
Employment	mil.	102.8	106.4	107.4	108.6	110.2	108.1	5.1
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.5	103.1	104.0	105.2	106.8	104.0	5.3
Unemployment rate	%	9.87	9.08	8.94	8.61	8.21	8.71	-11.8

*Historical data (1) % change over previous year

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3*	4		(1)
Single-family housing starts	mil.	.706	.586	.603	.638	.795	.656	-7.1
Multifamily housing starts	mil.	.379	.333	.355	.476	.456	.405	6.9
Mobile home shipments	mil.	.241	.238	.246	.234	.231	.238	1.2
Permits authorized	mil.	.969	.832	.924	1.114	1.223	1.023	5.6
1-family unit** price, new	tho.$	83.9	80.8	85.9	84.2	85.0	84.0	7.0
1-family unit** price,existing	tho.$	78.0	79.2	80.8	81.3	80.0	80.3	5.8

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.656	.926	.954	.987	.906	.943	43.8
Multifamily housing starts	mil.	.405	.524	.562	.601	.598	.571	41.0
Mobile home shipments	mil.	.238	.257	.281	.292	.283	.278	16.8
Permits authorized	mil.	1.023	1.294	1.398	1.507	1.386	1.396	36.5
1-family unit** price, new	mil.	84.0	87.5	90.2	92.4	94.3	91.1	8.4
1-family unit** price,existing	tho.$	80.3	81.3	82.4	84.3	86.5	83.6	4.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.943	.897	1.014	1.110	.964	.996	5.6
Multifamily housing starts	mil.	.571	.582	.637	.655	.629	.624	9.3
Mobile home shipments	mil.	.278	.259	.285	.314	.305	.291	4.7
Permits authorized	mil.	1.396	1.391	1.462	1.511	1.481	1.461	4.7
1-family unit** price, new	tho.$	91.1	96.2	97.4	98.9	101.2	98.4	8.0
1-family unit** price,existing	tho.$	83.6	87.4	89.3	91.4	92.5	90.2	7.9

*Historical data (1) % change over previous year **Not seas. adjusted

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	8.7	7.9	-8.1
Domestic	mil.	6.3	6.0	5.5	5.5	6.1	5.7	-9.5
Imported	mil.	2.3	2.3	2.0	2.2	2.5	2.2	-4.4
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.5	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	5.9	5.0	-1.6
Light-duty truck sales	mil.	1.7	2.2	2.1	2.0	2.1	2.1	23.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	7.9	8.4	8.6	8.7	9.0	8.7	10.1
Domestic	mil.	5.7	6.1	6.3	6.7	6.8	6.5	14.0
Imported	mil.	2.2	2.3	2.3	2.0	2.2	2.2	.0
Dealers inventories**	mil.	1.4	1.7	1.9	1.9	1.8	1.8	28.6
Factory shipments**	mil.	5.0	6.2	6.3	6.6	6.7	6.4	28.0
Light-duty truck sales	mil.	2.1	1.9	2.2	2.0	2.1	2.2	4.8

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.7	8.8	8.9	8.8	9.1	8.9	3.1
Domestic	mil.	6.5	6.8	7.0	7.1	7.2	7.0	9.2
Imported	mil.	2.2	2.0	1.9	1.7	1.9	1.9	-13.6
Dealers inventories**	mil.	1.8	1.9	2.0	1.9	1.9	1.9	5.6
Factory shipments**	mil.	6.4	6.8	7.2	6.9	7.1	7.0	9.4
Light-duty truck sales	mil.	2.2	2.1	2.3	2.4	2.2	2.3	4.5

*Historical data (1) % change over previous year **Seas. not adjusted

funds in other segments of the economy to cover the needs of the Federal Government and the needs of businesses. Funds can be drawn, directly or indirectly, that are currently in personal savings at banks and other financial institutions, and there also funds in other sectors.

Figures here show that there may be a collision between the deficit and the needs of business IF the 1983 red ink amounts to $250 billion or more and the total needs of business are in the $400 billion area. KEDI forecasts the 1983 fiscal deficit at $202 billion. Funds from other sectors are seen as adequate to finance the estimated $360 billion needed for business capital outlays. Even if that total went to $400 billion, this Institute sees the outlook as still on of growth. HOWEVER, over those totals the credit would be harder to come by and that would stifle recovery.

KEDI projects the 1984 deficit at $178 billion. Again, as long as it is under $250 billion and business needs are under roughly $450 billion, financing is there without reversing the recovery. Estimates here show any potential collision between the needs of government and needs of businesses financing are years away.

There is no significant change in state and local projections.

1.60 INCOME

(Table 1.70 on page 19)

Personal income was hardly changed in February. It went up by just .1 per cent. KEDI has changed its forecast for such income to an increase of 5.9 per cent this year as opposed to 5.6 forecast in previous issues.

Corporate profits. The projection here remains essentially the same: a 10 per cent jump in profits, after taxes, this year. They are seen as gaining 16 per cent in 1984. Profits managed to hold steady during the last two quarters of 1982 despite the general declines. Unfortunately, for the year, profits recorded a 22 per cent drop. KEDI does not view them as reaching pre-recession levels until 1985.

There were two other bits of good news. Total factory wages were up

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1 *	2*	3*	4		
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	295.6	299.2	300.1	.7
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	49.8	48.4	47.5	-29.4
Surplus/deficit	bil.$	-60.0	-118.4	-119.6	-156.0	-203.0	-149.3	249.8
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	98.8	100.5	97.1	9.6
Corporate prof. tax accruals	bil.$	10.1	10.1	10.2	10.2	11.2	10.4	3.0
Surplus/deficit	bil.$	31.7	27.7	32.1	32.3	36.0	32.2	1.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	300.1	305.6	308.9	299.4	312.8	306.7	2.2
Corporate prof. tax accruals	bil.$	47.5	50.0	54.6	57.4	60.0	55.5	16.8
Surplus/deficit	bil.$	-149.3	-197.8	-196.5	-202.2	-184.7	-195.3	-30.8
State and local governments:								
Income taxes	bil.$	97.1	101.9	103.2	105.4	107.6	104.5	7.6
Corporate prof. tax accruals	bil.$	10.4	11.3	11.7	12.1	12.4	11.9	14.4
Surplus/deficit	bil.$	32.2	36.3	37.6	38.2	39.1	37.8	17.4

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	306.7	316.7	327.8	339.5	352.7	334.2	9.0
Corporate prof. tax accruals	bil.$	55.5	64.3	68.1	71.4	74.3	69.5	25.2
Surplus/deficit	bil.$	-195.3	-180.4	-174.5	-152.3	-122.1	-157.3	19.5
State and local governments:								
Income taxes	bil.$	104.5	109.5	111.8	113.5	115.7	112.6	7.8
Corporate prof. tax accruals	bil.$	11.9	12.7	13.0	13.3	13.5	13.1	10.1
Surplus/deficit	bil.$	37.8	38.6	39.9	40.1	41.7	40.1	6.1

*Historical data (1) % change over previous year

INCOME

for the second month in a row. Unemployment benefits were off in February.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The money supply was up $4.8 billion in early March. M1 had grown at a rate of 13.2 per cent in the 13 weeks ending then as opposed to the prior like period (seasonally adjusted annual rates). During February, M1 grew at an adjusted rate of 34 per cent. That certainly was above the Fed's targets of 4-8 per cent this year.

The increase is not of great concern as the figures are distorted by the fast movement of funds into the new high-interest checking accounts. Growth in the money supply will slow as deposits are restructured.

The forecast by KEDI for M1 is that it will expand by 6.1 per cent this year. As measured between the last quarter of the current year and the last quarter of 1982, KEDI estimates M1 will grow by 9.3 per cent. That is above the 4-8 per cent target (final quarter to final quarter) set by the Fed. Not to worry...Such growth will not rekindle inflation. We can live with it.

The forecast is not changed for consumer installment credit or commercial and industrial loans. The forecast of mortgages at savings and loan associations is revised up to a gain of 6.9 per cent this year from 6.6 due to the revision of housing starts.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 22)

There will not be any drastic changes in interest rates this year or next year. The forecast is not changed in any significant way.

Short-term rates will keep moving down by very small margins in the second quarter and firm up in the latter half of the year. The prime rate will be in the 10-11 per cent range in the last quarter. The reader is referred to Table 1.80 on page 22.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1*	2*	3*	4		(1)
Personal income	bil.$	2415.8	2510.5	2552.7	2592.5	2624.0	2569.9	6.4
Personal disposable income	bil.$	2029.1	2117.1	2151.5	2198.1	2224.3	2172.8	7.1
Compensation of employees	bil.$	1767.6	1819.9	1850.8	1868.3	1876.1	1853.9	4.9
Corporate after tax profits	bil.$	150.9	115.9	116.3	119.4	119.4	117.1	-22.1
Personal saving	bil.$	130.2	139.1	144.3	152.0	133.4	143.2	9.6
Average weekly earnings	$	316.8	323.4	329.8	332.9	334.1	330.1	4.2

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2569.9	2653.7	2699.9	2723.1	2806.6	2720.8	5.9
Personal disposable income	bil.$	2172.8	2246.2	2287.8	2318.3	2386.2	2309.6	6.3
Compensation of employees	bil.$	1853.9	1901.2	1943.3	1959.9	2014.3	1954.4	5.4
Corporate after tax profits	bil.$	117.7	122.4	127.9	133.1	138.2	130.4	10.8
Personal saving	bil.$	143.2	135.6	140.6	150.1	151.2	144.4	.8
Average weekly earnings	$	330.1	335.3	342.4	351.2	355.7	346.2	4.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2720.8	2860.1	2941.9	3024.4	3109.1	2983.9	9.7
Personal disposable income	bil.$	2309.6	2433.9	2502.3	2571.4	2640.7	2537.1	9.9
Compensation of employees	bil.$	1954.4	2031.2	2131.3	2180.4	2262.6	2151.4	10.1
Corporate after tax profits	bil.$	130.4	141.5	150.1	158.3	162.4	153.1	17.4
Personal saving	bil.$	144.4	154.7	159.0	162.5	165.8	160.5	14.8
Average weekly earnings	$	346.2	364.5	369.1	374.8	380.1	372.1	7.5

*Historical data (1) % change over previous year

INTEREST RATES, YIELDS, AND SECURITIES PRICES

KEDI agrees with Allen Sinai of Data Resources that rates will decline in the second quarter.

There are small continuous declines seen for mortgage rates, and long-term government bonds yields. Aaa and Aa rates will increase a bit in the fourth quarter. Mortgage rates will be in the 11 per cent range toward the end of the year.

It is expected here that Federal Reserve policy will continue on the course started in June 1982: gradual relaxing of monetary and credit policy. Some turn-around is anticipated in the second half of this year. As the recovery gains momentum at that time, the Fed will begin to emphasize the interest rate policy to slow down the upward movement of interest rates and yields.

The forecast of the stock market remains the same. In the second half of this years some declines are anticipated. Generally, there will be strong performances this year and in 1984.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982 1*	1982 2 *	1982 3 *	1982 4	1982	% (1)
Currency and demand deposits,M1	bil.$	429.6	448.0	451.8	455.7	474.0	475.4	6.5
Time deposits, adjusted,M2	bil.$	1741.7	1851.1	1895.4	1941.9	1984.8	1918.2	10.1
Consumer instal. credit	bil.$	333.4	327.1	331.9	335.9	343.4	343.4	3.0
Commerc.& indus. loans at banks	bil.$	360.2	369.0	385.1	394.4	397.0	397.0	10.2
Large denomination time dep.	bil.$	295.4	307.7	322.4	338.2	338.5	326.7	10.6
Mortgages at S & L Assns.	bil.$	518.4	516.1	513.0	493.9	484.3	484.3	-6.6

Indicator	Unit	1982	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Currency and demand deposits,M1	bil.$	475.4	486.4	502.3	510.4	518.3	504.4	6.1
Time deposits, adjusted, M2	bil.$	1918.2	2031.9	2086.9	2170.6	2208.8	2124.7	10.8
Consumer instal. credit	bil.$	343.4	354.0	359.2	365.0	371.0	371.0	8.0
Commerc.& indus. loans at banks	bil.$	397.0	409.0	413.0	420.1	431.8	431.8	8.8
Large denomination time dep.	bil.$	326.7	352.4	355.3	360.3	367.5	358.9	9.9
Mortgages at S & L Assns.	bil.$	484.3	490.8	500.2	509.9	518.7	518.7	7.1

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Currency and demand deposits,M1	bil.$	504.4	524.8	532.2	545.1	556.1	537.1	6.4
Time deposits, adjusted,M2	bil.$	2124.7	2240.7	2287.6	2336.8	2411.9	2319.3	9.2
Consumer instal. credit	bil.$	371.0	380.1	388.7	398.0	403.8	403.8	8.8
Commerc.& indus. loans at banks	bil.$	431.8	434.2	447.0	458.1	469.2	469.2	8.7
Large denomination time dep.	bil $	358.9	361.5	379.8	390.1	400.1	383.8	6.9
Mortgages at S & L Assns.	bil.$	518.7	531.2	544.9	555.0	566.8	566.8	9.2

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1*	2*	3*	4		
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	8.10	7.91	10.20	-27.3
Prime rate	%	18.87	16.27	16.50	14.72	11.95	14.86	-21.2
Conventional mortgages rate	%	16.52	17.10	16.58	14.80	13.79	15.57	-5.3
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	11.88	13.78	-2.8
20 years Govt. bonds yield	%	13.72	14.27	13.80	12.01	10.72	12.70	-7.4
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	113.82	136.71	119.75	-6.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	10.20	8.04	8.01	8.29	8.82	8.29	-18.3
Prime rate	%	14.86	10.71	10.24	10.14	10.27	10.34	-30.4
Conventional mortgages rate	%	15.57	13.14	12.71	12.24	11.74	12.46	-20.0
Aaa corporate bonds rate	%	13.78	11.65	11.18	11.36	11.68	11.47	-16.7
20 years Govt. bonds yield	%	12.70	11.01	11.23	11.47	11.69	11.35	-10.6
Standard & Poor's 500 avg.	1941-43=100	119.75	140.98	137.65	138.24	136.51	138.34	15.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	8.29	8.92	8.77	9.46	10.16	9.33	12.5
Prime rate	%	10.34	10.58	10.79	11.32	11.75	11.12	7.5
Conventional mortgages rate	%	12.46	11.63	11.34	11.44	11.97	11.60	-7.0
Aaa corporate bonds rate	%	11.47	11.62	11.54	11.26	11.35	11.44	-.3
20 years Govt. bonds yield	%	11.35	11.53	11.76	11.94	11.98	11.80	4.0
Standard & Poor's 500 avg.	1941-43=100	138.34	135.57	134.48	132.56	130.49	133.27	-3.7

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Personal Consumption Expenditures in Current $ for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.1, January 1983, p.8, (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982). The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Consumption Expenditures, bil. $)

Actual figure: 1972.0

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
Prudential	11/30/81	2049.5	6	3.9
National Securities and Research Corporation	12/81	2045.0	6	3.7
U.S.Trust Company, New York	12/81	2042.0	8	3.5
Calvin C. Myers, The Merchants National Bank of Aurora	12/4/81	2040.0	8	3.4
Walter D. Fackler, University of Chicago	12/9/81	1975.0	10	.1
United Business Service	12/14/81	2064.0	10	4.7
Georgia State	11/81	2043.8	15	3.6
Harris Trust and Savings Bank	11/11/81	2021.5	17	2.5
UCLA	12/81	1993.4	20	1.1
Metropolitan Life Insurance Co.	12/1/81	2089.6	21	6.0
Standard & Poor's	12/10/81	2040.8	24	3.5
Manufacturers Hanover Trust	11/11/81	2023.8	25	2.6
Fidelity Bank	12/18/81	2027.7	26	2.8
KEDI	1/1/82	1961.7	28	-.5
Morgan Guaranty	1/7/82	2021.5	30	2.5

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

u2635-1 A

KEDI ECONOMIC SURVEY

MAY 1983 ISSUE

**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 11, May 1, 1983

KEDI ECONOMIC SURVEY

MAY 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to:KEDI ECONOMIC SURVEY,Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent OH 44242, U.S.A. Kent State University Foundation, Inc.,and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 058300834
KEDI May 1, 1983

(C) Kent Economic and Development Institute

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 2
1.03 ASSUMPTIONS 2

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 3
1.20 PRICES AND NOMINAL GNP 7
1.30 EMPLOYMENT AND LABOR 8
1.41 HOUSING 10
1.42 AUTOMOBILES 12
1.50 BUDGETS 16
1.60 INCOME 16
1.70 MONEY AND CREDIT 18
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 20
3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 23
4.00 HISTORICAL DATA SOURCES 24

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 4
1.10 REAL GROWTH 5
1.21 PRICES 9
1.22 NOMINAL GNP 11
1.30 EMPLOYMENT AND LABOR 13
1.41 HOUSING 14
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS, AND SECURITIES Prices 22
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 23
3.00 HISTORICAL DATA SOURCES 24

This forecast uses the April, 1983, U.S. Department of Commerce first estimates of 1983:1 National Income and Product data. Also used is the April 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

The forecast for the increase in real GNP in 1983 is at 2.6 per cent. Recovery is slowly proceeding. REAL GROWTH The news continues to be mixed with the positive ourweighing the negative. Gains were recorded in new orders, factory use rate, durable goods ordered, retail sales, consumer confidence and productivity. First quarter GNP had a respectable gain of 3.1 per cent. There were small declines in housing starts (as has been anticipated here following a spurt), construction, and factory orders. PRICES The forecast is revised downward a bit. Inflation is seen as being 2.7 per cent this year. EMPLOYMENT The forecast remains the same. Joblessness will average 9.8 per cent this year with the last part of the year being just a bit better than the first part. It will edge down about a percentage more in 1984. The slow recovery does not have enough steam to make much of a dent in the unemployment scene. HOUSING The forecast is maintained here for starts to total 1.6 million this year. As had been anticipated, March starts were down from the February adjusted level. High unemployment and relatively high mortgage rates simply but a damper on anything but modest gains here. AUTOS The forecast is the same, with domestic auto sales being in the six million to seven million range, quarter by quarter this year. Comparisons to last year overstate the degree of improvement as it was a bad year for U.S. cars. BUDGETS The federal deficit is somewhat revised here to an estimate of $204 billion for this fiscal year. INCOME The projection here is not changed. Increases will be very moderate, but a change in the structure with wages and salaries representing an increasing share is positive. The forecast for corporate profits has been increased. MONEY AND CREDIT There are no changes here. Expansion of M1 will not push inflation up or slow recovery. INTEREST RATES Others are starting to say what has been said here for some time. The interest rate trend is down. The prime rate will stabilize around 10.8 per cent. Mortgage rates will be in the 11 per cent area.

1.02 OVERVIEW

The general forecast that has been maintained here for months is not changed. There will be slow recovery in 1983 with some acceleration in the following year. The rate of inflation forecast here is reduced to 2.7 per cent from the estimate used in April's issue of 2.9 per cent. It will go up to the 4 per cent range in 1984. The unemployment rate is still seen as averaging 9.8 per cent during the current year. It will move down to the 8.7 per cent range in 1984. Its high level will be a major factor in keeping growth on the modest side. As to interest rates: they will decline some in the second quarter, stabilize and then nudge a bit. Generally high levels will persist in 1984.

It bears repeating here that THERE IS NO DIRECT RELATIONSHIP BETWEEN INTEREST RATES AND FEDERAL DEFICITS. Deficits have and are going up, but interest rates have been declining. That is quite the opposite of the assertions of many economists. At last, the majority of them see that interest rates will be edging down. It is clear that deficits at the federal level will be very high. In order for the red ink in Washington to have an impact on interest rates, annual deficits would have to be well above $250 billion. Business capital spending would have to be in the $500 annual range. Neither is forecast here for 1983 and 1984. Adequate funds exist in other sectors of the economy for borrowing so that interest rates are not pushed back up to their distasteful levels in the high teens and above.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumption No.7 has been dropped.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; and in 1986, $32 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

ASSUMPTIONS

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1986 period. In the first half of 1983 some relaxation, and in the second half of 1983 stabilizing is expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1983 and 1984 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China in these years. U.S. record crops are expected in 1985-1986.

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are assumed.

The May 1983 KEDI forecast is highlighted on page 4.

1.10 REAL GROWTH

(Table 1.10 on page 5)

Developments continue to confirm the outlook for slow growth. Gains that did take place were generally of a mild nature. There were also some areas where bits of decline were recorded--construction, housing starts, and factory orders.

1. After a decline in February, new orders for durable goods were up by an adjusted 3.5 per cent in March to $80.79 billion. That is still 11% below the $87.6 billion peak reached in mid-1981.

2. Retail sales were aided by an early Easter and good weather. The March gains were best for chains concentrating on clothing. Sales were up just 0.3 per cent--the first gain since November.

3. The March change in factory use was positive. It was the fourth month of increase. Still, just 69.4 per cent of capacity was used. That is far from a more normal 85 per cent.

4. Data released on mid-April by the Commerce Department showed construction spending edged down in Fenruary to an adjusted rate

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1476.0	1513.6	1704.5	1779.4
Index of industrial production	1967=100	138.6	144.9	165.9	176.7
Capacity utilization	%	69.8	71.5	79.4	83.1
Unemployment rate	%	7.9	8.7	7.6	6.9
Private housing starts	mil.	1.061	1.546	1.647	1.895
Car sales	mil.	7.9	8.7	9.7	10.9
Implicit GNP price deflator	1972=100	207.2	216.4	246.1	257.9
Consumer price index	1967=100	288.6	286.0	331.7	355.6
Producer price index*	1967=100	-280.6	-286.0	331.7	355.6
Federal deficit	bil.$	-149.3	-196.8	-52.4	-63.1
Personal income	bil.$	2570.6	2719.1	3442.7	3608.5
Prime rate	%	14.86	10.46	12.78	10.04
Mortgage rate	%	15.57	12.50	13.46	12.37
Currency plus demand deposits	bil.$	475.4	504.2	614.8	659.7
Commercial and industrial loans	bil.$	394.6	426.1	597.5	624.4

* Finished goods

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1476.0	1488.5	1504.5	1520.5	1541.0	1513.6	2.6
Index of industrial product.	1967=100	138.6	138.0	141.9	147.2	152.3	144.9	4.5
Unemployment rate	%	9.7	10.3	10.0	9.7	9.3	9.8	1.0
Capacity utilization rate	%	69.8	68.8	70.5	72.3	75.5	71.8	2.9
Private housing starts	mil. units	1.061	1.693	1.560	1.510	1.421	1.546	45.7
Car sales	mil. units	7.9	8.4	8.6	8.7	9.0	8.7	10.1

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1513.6	1554.5	1569.4	1583.9	1604.8	1578.1	4.3
Index of industrial product.	1967=100	144.9	154.8	157.5	162.3	167.7	160.6	10.8
Unemployment rate	%	9.8	9.1	9.0	8.6	8.2	8.7	-11.2
Capacity utilization rate	%	71.8	76.8	77.5	79.4	79.9	78.4	9.2
Private housing starts	mil. units	1.546	1.482	1.671	1.796	1.610	1.630	5.4
Car sales	mil. units	8.7	8.8	8.9	8.8	9.2	9.0	3.4

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1578.1	1619.7	1641.3	1664.7	1681.3	1651.7	4.7
Index of industrial product.	1967=100	160.6	169.4	173.2	175.6	178.1	174.1	8.4
Unemployment rate	%	8.7	8.1	7.9	7.8	7.3	7.8	-10.0
Capacity utilization rate	%	78.4	81.1	82.7	83.0	83.4	82.6	5.4
Private housing starts	mil. units	1.630	1.534	1.751	1.875	1.628	1.698	3.5
Car sales	mil. units	9.0	9.3	9.5	9.4	9.8	9.5	6.7

*Historical data (1) % change over previous year

REAL GROWTH

of $250.9 billion from the Jan. seasonally adjusted figure of $256.1. During March, construction outlays were down again by 1.6 per cent, according to F.W. Dodge. New awards were up by 10 per cent. So, late spring should show some improvement.

5. Machine tool orders are seen as bottoming out. In March, orders were up by 29 per cent from the February level, but they were still 8.9 per cent below the depressed total for March of 1982.

6. GNP increased by 3.1 per cent in the first quarter of this year. That was the best since the first part of 1981. Still, it was a bit weaker than had been expected by many forecasters and by the White House. Most of the gain was in housing, more consumer goods production, and a slowing of inventory cutting by business.

7. It was announced in late April that inventories of manufacturers were down just a bit--about one half billion to $261.64 billion. At the same time, unfilled orders gained close to a billion to reach a level of $299.01 in February.

8. Factory orders were off by 2.2 per cent in February. They had been up in the prior two months and are expected to show increases in March and April.

9. During the first quarter, productivity showed a healthy gain of 4.8 per cent. That was the best improvement since early 1981. Productivity, in general, is an area of concern. It's low level is one of the deep problems facing this nation--especially when compared with other countries like Japan.

10. Housing starts did edge back down in March as had been anticipated here in terms of annual rates. The decline was small.

11. The Consumer Confidence Index was up close to 10 points in March. That was the largest hike in the past nine years. It will translate into more buying in the next months. It does not point to a boom but to acceptable levels of gain.

The housing construction scene and the consumer demand situation add credence to the view here that the growth will be mild in nature. Housing is not seen here at KEDI as growing as fast in the next few quarters as it did in the first one. As to consumer demand, it will expand some but not very much as there is just too much unemployment and under-employment out there. Those families and individuals that number well over 15 million and likely more than 20 million can buy very little--certainly not new homes, or t.v. sets, or wardrobes, or steak dinners.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast for consumer prices is reduced here due to the unexpected March decline in the CPI. Last month KEDI looked to inflation Of 2.9 per cent for the current year. Now it is seen as being closer to 2.7 per cent.

In terms of the second quarter of this year, inflation is not seen as being as high as the 5 per cent that Mr. Ratajczak recently predicted. It is agreed that the very moderate changes in the CPI will end soon, but increases will not be dramatic. Certainly, the second quarter rate will exceed the modest rate of 1.6 per cent, seasonally adjusted reached in the first quarter.

The slip in wholesale prices in March is good news even if it is small. Such prices were down by 0.1 per cent. The Producer Price Index for finished goods was at 283.4 in March. That is equal to $2,834 for goods that cost businesses $1,000 in 1967.

The CPI was up just 0.1 per cent in March even though food prices rose over one-half per cent. That gives 1983 the lowest inflation rate in almost 18 years, so far. The February to March change in major components of the CPI were as follows: gasoline down 0.1, new cars up 0.7, food up 0.6, medical care up 0.5, and clothing down 0.1 per cent.

Food prices are expected to stay relatively low in terms of increases this year. In 1984 they will start to rise at an increasing rate.

1.22 NOMINAL GNP
(Table 1.22 on page 11)

Compared with the April's forecast, the main change pertains to foreign trade. KEDI expects, now, that the 1983 performance of the U.S. foreign trade will improve a bit. The "Net Exports" item will show a small surplus as compared with previously forecasted small deficit. In 1984, a temporary deficit will appear in the third and fourth quarters. In 1985, permanent surplus will take place.

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 13)

The forecast is not changed. The outlook is hardly bright, but very gradual declines are foreseen. The average rate this year is calculated at 9.8 per cent. Next year it is estimated by KEDI to be close to 8.7 per cent. That is a tad better but a long way from more "normal" acceptable levels in the 5 per cent range.

The average unemployment rate for this year and the next four years is presented here by this Institute:

1983	9.8%
1984	8.7%
1985	7.8%
1986	7.7%
1987	7.4%

For 1983, high unemployment will persist in important industries, namely: nonferrous and ferrous metal mining, steel, machinery, machine tools, plastics, cement, automobiles, and chemicals. In 1984, the main improvements will be in mining, nonelectrical machinery, rubber, autos, and chemicals. It will not be until 1985 that machine tools and plastics will show more substantial recovery.

The view that has been expressed here for many months is NOW shared by Evans Economics, Inc., for instance. In late April, Van Jolissaint of that firm referred to the weak but steady

1.21 PRICES

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	288.6	292.5	294.4	297.1	299.8	296.0	2.6
Producer price index,n.s.a.**	1967=100	280.6	283.4	285.1	287.2	288.3	286.0	1.9
Price deflators:								
GNP	1972=100	207.2	213.4	215.4	217.2	219.6	216.4	4.4
Personal cons. expenditures	1972=100	206.0	211.2	214.5	215.1	217.8	214.6	4.2
Gross private dom. investment	1972=100	214.3	215.8	219.2	221.7	224.2	220.2	2.8
Federal purchases	1972=100	221.7	231.4	233.9	235.8	238.4	234.9	6.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	296.0	303.8	307.2	309.8	312.3	308.3	4.2
Producer price index,n.s.a.**	1967=100	286.0	293.0	296.1	299.8	306.7	298.9	4.5
Price deflators:								
GNP	1972=100	216.4	222.5	227.1	229.2	232.1	227.8	5.3
Personal cons. expenditures	1972=100	214.6	221.3	225.2	227.6	230.5	226.2	5.4
Gross private dom. investment	1972=100	220.2	226.9	229.4	234.6	237.5	232.4	5.5
Federal purchases	1972=100	234.9	241.2	245.8	249.6	253.1	247.4	5.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	308.3	316.1	319.6	324.6	328.4	322.2	4.5
Producer price index,n.s.a.**	1967=100	298.9	311.4	316.3	319.8	324.5	318.0	6.3
Price deflators:								
GNP	1972=100	227.8	234.3	236.7	238.1	241.3	237.6	4.3
Personal cons. expenditures	1972=100	226.2	232.7	234.6	237.0	239.5	236.0	4.3
Gross private dom. investment	1972=100	232.4	240.3	244.7	246.9	248.3	245.1	5.6
Federal purchases	1972=100	247.4	256.0	259.2	263.8	266.4	261.4	5.7

*Historical data (1) % change over previous year **Finished goods

expansion and pointed out that it is not enough to generate added jobs to alter the unemployment rate very much. (Akron Beacon Journal, April 21, 1983, page A9). KEDI also shares the view of Richard Rahn that growth in the 3 per cent range is not enough to add jobs for those first-time entrants in the labor force. (This May and June will see thousands of high school and college graduates facing many months of joblessness and continued reliance on mom and dad as they scramble for work or scale down their aspirations to just any job no matter how low the pay.)

1.41 HOUSING

(Table 1.41 on page 14)

The forecast is maintained here that housing starts will total 1.5 million in 1983 and 1.6 million in 1984. That is a progress but still below more normal levels.

Developments in MARCH confirm the trends seen here. March housing starts declined from the 1.8 million adjusted annual average for January and February. The adjusted March rate was at 1.61 million. KEDI agrees with Michael Sumichrast of the National Association of Home Builders that the February rate could not be sustained.

There are two basic reasons why rates will stay in the current range.

1. Mortgage rates will only edge down slightly from current levels. It is estimated here that they will stabilize in the 11-12 range this year and next year. For starts to reach a higher level of, say, 1.8-2.0 million, mortgage rates would need to go down to 9-10 per cent.
2. The high unemployment for this year and next simply means less on the market.

Also confirming the forecast here is the increase in home resales. In March, such resales of single-family houses rose by 9.8 per cent to an annual rate of 2.7 million.

However, it is not such good news that March resale prices were up 3.4 per cent over the prior year. Prices reached a median of

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Gross national product	bil.$	3057.6	3176.7	3240.8	3303.3	3384.2	3276.2	[illegible]
Personal cons. expenditures	bil.$	1971.3	2054.0	2099.2	2146.1	2189.3	2122.2	[illegible]
Gross private dom. investment	bil.$	420.5	430.6	442.4	452.1	477.3	449.6	[illegible]
Net exports	bil.$	18.5	16.6	15.3	5.[illegible]	4.3	10.4	-4[illegible]
Government purchases:								
Federal	bil.$	257.7	271.9	275.3	286.7	294.3	282.1	[illegible]
State and local	bil.$	389.6	403.6	408.7	413.9	419.0	411.3	[illegible]

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product	bil.$	3276.2	3459.4	3564.4	3630.8	3725.4	3595.0	[illegible]
Personal cons. expenditures	bil.$	2122.2	2218.2	2288.3	2338.0	2408.1	2313.2	[illegible]
Gross private dom. investment	bil.$	449.6	514.8	535.2	548.7	567.4	545.5	[illegible]
Net exports	bil.$	10.4	2.1	5.6	-1.4	-11.3	-5.0	[illegible]
Government purchases:								
Federal	bil.$	282.1	300.2	306.1	310.4	317.5	308.6	[illegible]
State and local	bil.$	411.3	423.8	429.2	435.1	443.7	432.8	[illegible]

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil.$	3595.0	3795.1	3885.3	3964.2	4057.3	3925.5	[illegible]
Personal cons. expenditures	bil.$	2313.2	2442.8	2509.2	2572.2	2652.9	2544.3	1[illegible]
Gross private dom. investment	bil.$	545.5	577.3	582.3	587.2	592.4	584.8	[illegible]
Net exports	bil.$	-5.0	3.5	12.8	14.3	11.6	10.[illegible]	[illegible]
Government purchases:								
Federal	bil.$	308.6	324.3	329.7	334.3	338.1	331.[illegible]	[illegible]
State and local	bil.$	432.8	447.2	451.3	456.2	462.3	454.3	[illegible]

*Historical data (1) % change over previous year

HOUSING

$69,300. It is bad news that the average price of NEW house set a record of $89,900 in February. At that time, sales of new houses went down by 5.9 per cent after gaining for four months.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The KEDI forecast is not revised. Despite some optimistic announcements from Detroit and some temporary good news, the state of the economy and the high unemployment rate in particular do not warrant any joy. Gains will be mild.

The president of General Motors expressed confidence in a very good year because workers were being called back, interest rates have gone down, and consumers are carrying less debt. It is a matter of degree. KEDI views these facts as helping the auto industry, BUT 1983 will hardly be a banner year for cars.

March auto sales were about the same as a year ago. April sales have been up. In early April, there was a 32.4 per cent jump over the year-earlier total. In late April, domestic automakers planned to produce about 20 per cent more cars than they did in late April of 1982.

The first quarter of this year recorded sales just 3.7 per cent improved from the first quarter of last year. Most experts look to a car market-both domestic and foreign-of around 9 million autos. KEDI is a bit less optimistic. People are keeping their cars longer and are buying used cars more than has been true in the past as many cannot afford the average cost of roughly $9,000 for a new car.

Automakers plans for the second quarter have increased to a total of 1.8 million units. That is better but not by much. KEDI stands by its forecast of quarterly domestic auto sales averaging in the low six million range in the first part of the year and being closer to seven million in the last quarter. That is still a few million below more normal rates of a few years ago.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	112.3	113.4	114.9	115.8	114.1	3.5
Employment	mil.	99.5	100.7	102.0	103.8	105.0	102.9	3.4
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.1	97.4	98.6	100.5	101.6	99.5	3.5
Unemployment rate	%	9.72	10.34	10.02	9.66	9.32	9.84	1.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	117.0	117.9	118.8	120.1	118.5	3.9
Employment	mil.	102.9	106.4	107.3	108.5	110.2	108.1	5.1
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.5	103.1	103.9	105.1	106.8	104.7	5.2
Unemployment rate	%	9.84	9.09	8.95	8.64	8.21	8.72	-11.4

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	235.7	237.5	238.1	239.0	240.1	238.7	1.3
Civilian labor force	mil.	118.5	121.0	121.1	123.2	124.5	122.7	3.5
Employment	mil.	108.1	111.2	112.4	113.6	115.4	113.1	4.6
Agriculture	mil.	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Non agricult.	mil.	104.7	107.9	109.1	110.3	112.1	109.7	4.8
Unemployment rate	%	8.72	8.11	7.93	7.81	7.34	7.80	-10.6

*Historical data (1) % change over previous year

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Single-family housing starts	mil.	.656	1.693	.950	.908	.837	.940	43.2
Multifamily housing starts	mil.	.405	.628	.610	.602	.584	.606	19.6
Mobile home shipments	mil.	.238	.254	.279	.290	.281	.276	16.0
Permits authorized	mil.	1.023	1.292	1.376	1.483	1.324	1.369	33.8
1-family unit** price, new	tho.$	84.0	88.4	92.5	94.8	97.3	93.2	11.0
1-family unit** price, existing	tho.$	80.3	82.1	84.3	87.1	89.4	85.7	6.7

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Single-family housing starts	mil.	.943	.899	1.032	1.138	.979	1.012	7.3
Multifamily housing starts	mil.	.606	.583	.639	.658	.631	.628	8.6
Mobile home shipments	mil.	.276	.250	.281	.309	.289	.282	1.4
Permits authorized	mil.	1.369	1.385	1.447	1.503	1.472	1.452	4.0
1-family unit** price, new	mil.	93.2	98.9	101.3	104.7	105.8	102.7	12.7
1-family unit** price, existing	tho.$	85.7	91.2	92.3	94.2	95.7	93.4	11.7

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Single-family housing starts	mil.	1.012	.914	1.084	1.198	.986	1.046	3.4
Multifamily housing starts	mil.	.628	.620	.667	.677	.642	.652	3.8
Mobile home shipments	mil.	.282	.274	.285	.293	.297	.287	1.8
Permits authorized	mil.	1.452	1.286	1.563	1.587	1.465	1.475	1.6
1-family unit** price, new	tho.$	102.7	106.2	108.1	109.2	110.4	108.5	5.6
1-family unit** price, existing	tho.$	93.4	96.1	97.2	98.1	98.9	97.6	4.5

*Historical data (1) % change over previous year **Not seas. adjusted

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	7.9	8.4	8.6	8.7	9.0	8.7	10.1
Domestic	mil.	5.7	6.1	6.3	6.7	6.8	6.5	14.0
Imported	mil.	2.2	2.3	2.3	2.0	2.2	2.2	.0
Dealers inventories**	mil.	1.4	1.7	1.9	1.9	1.8	1.8	28.6
Factory shipments,	mil.	5.0	6.2	6.3	6.6	6.7	6.4	28.0
Light-duty truck sales	mil.	2.1	1.9	2.2	2.0	2.1	2.2	4.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.7	8.8	8.9	8.8	9.1	8.9	3.1
Domestic	mil.	6.5	6.8	7.0	7.1	7.2	7.0	9.2
Imported	mil.	2.2	2.0	1.9	1.7	1.9	1.9	-13.6
Dealers inventories**	mil.	1.8	1.9	2.0	1.9	1.9	1.9	5.6
Factory shipments**	mil.	6.4	6.8	7.2	6.9	7.1	7.0	9.4
Light-duty truck sales	mil.	2.2	2.1	2.3	2.4	2.2	2.3	4.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.9	9.3	9.5	9.4	9.8	9.5	6.7
Domestic	mil.	7.0	7.3	7.5	7.5	7.7	7.5	7.1
Imported	mil.	1.9	2.0	2.0	1.9	2.1	2.0	5.3
Dealers inventories**	mil.	1.9	2.0	2.2	2.2	2.5	2.2	15.8
Factory shipments**	mil.	7.0	7.2	7.6	7.7	7.5	7.5	7.1
Light-duty truck sales	mil.	2.3	2.3	2.4	2.5	2.3	2.4	2.3

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS

(Table 1.50 on page 17)

The projection of the federal deficit for this fiscal year, 1983, has been slightly increased from $202 billion to $204 billion. KEDI does not see the red ink as flowing quite as fast as the Administration. In late April, they predicted it would be a bit above $210 billion.

The position is maintained here that large deficits will not endanger the slow recovery that is under way. Unless deficits were well over $250 billion and the total needs of private capital outlays over $500 billion (both are not foreseen here), other sectors of the economy are seen as adequate to provide financing.

This Institute does not agree with Mr. Weidenbaum, former chief economic adviser, that the present deficit deprives business of private resources. The forecast that has been maintained here for some time is the same. Capital formation will not be slowed by deficits currently projected. Pressure on interest rates will be in the reasonable range. There is no direct relationship between interest rates and deficits. The former has been going down and the latter up!

As to state budgets, so far 15 have passed new taxes since January to help close the budget gaps that 23 states have. New or higher taxes on income, business, gasoline, cigarettes, and liquor are the trend.

1.60 INCOME

(Table 1.60 on page 19)

The forecast here is not changed. There will be very moderate gains in personal income during the rest of this year and next year. Personal disposable income will be trimmed by hikes in state and local taxes.

The projection shows constant improvements in the structure of personal income and personal disposable income. Namely, the share

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates).

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	300.1	298.2	305.4	295.1	308.7	201.9	.6
Corporate prof. tax accruals	bil.$	47.5	49.8	54.2	57.0	58.4	54.9	15.6
Surplus/deficit	bil.$	-149.3	-199.4	-198.7	-204.6	-184.5	-196.8	-31.8
State and local governments:								
Income taxes	bil.$	97.1	103.2	103.9	106.0	108.2	105.0	8.1
Corporate prof. tax accruals	bil.$	10.4	11.3	11.7	12.1	12.4	11.9	14.4
Surplus/deficit	bil.$	32.2	36.3	37.6	38.2	39.1	37.8	17.4

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	201.9	310.5	322.4	328.9	337.6	321.1	6.5
Corporate prof. tax accruals	bil.$	54.9	64.0	67.9	70.1	73.7	68.8	25.3
Surplus/deficit	bil.$	-196.8	-182.3	-176.1	-154.4	-123.2	-159.0	-19.8
State and local governments:								
Income taxes	bil.$	105.0	110.1	112.8	114.4	116.3	113.4	8.0
Corporate prof. tax accruals	bil.$	11.9	12.7	13.0	13.3	13.5	13.1	10.1
Surplus/deficit	bil.$	37.8	38.6	39.9	40.1	41.7	40.1	6.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	321.1	340.3	345.8	351.2	356.8	348.5	8.4
Corporate prof. tax accruals	bil.$	68.8	74.8	77.2	79.9	84.3	79.1	15.0
Surplus/deficit	bil.$	-159.0	-107.8	-94.3	-81.1	-62.7	-86.5	-45.6
State and local governments:								
Income taxes	bil.$	113.4	118.9	120.7	123.5	127.8	122.7	8.2
Corporate prof. tax accruals	bil.$	13.1	13.9	14.3	14.9	15.6	14.7	12.2
Surplus/deficit	bil.$	40.1	42.3	43.1	44.2	45.3	43.7	9.0

*Historical data (1) % change over previous year

of wages and salaries will keep increasing.

KEDI agrees with Mr. Ortner that the March gains in wages and salaries were a good sign that could lead to more spending by consumers and, hence, to more growth in the economy. Gross weekly earnings in March were up by $4.05 to $274.57.

Personal income edged ahead by 0.6 per cent in March and consumer spending inched up by 0.4 per cent. Personal income was at a seasonally adjusted rate of $2.659 trillion that month.

The forecast for corporate profits is slightly increased. In 1983, after tax profits are seen as being up 11.0 per cent from the year-earlier total.

The best earnings gains will be in fabricated metal products, autos, forest products, home building, construction, and finance and loan. Moderate increases will take place in the rubber, home products, paper, railroad, auto equipment, and telephone utilities area. There will be very small changes--some barely up and some inching down--in insurance, food, electrical machinery, gas utilities, tobacco, oil, steel, mining, and recreational vehicles.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The projection for M1 and M2 is maintained here. The first will expand by 6 per cent this year and the latter will grow 10.7 per cent. For 1984, the figures are 6.4 and 9.3, respectively.

Milton Friedman has indicated that a reduction in monetary growth to within the targets for M1 of 4-8 per cent would still very likely mean a slowing of recovery and an inflation push. (Newsweek, May 2, 1983, page 72.) KEDI DOES NOT AGREE.

Forecast data here show money supply growth of 6 per cent for this year and 6 4 per cent for 1984 will not rekindle inflation. The Consumer Price Index forecast shows an increase of about 3 per cent for this year and about 4 per cent in 1984. Apparently,

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2570.6	2648.3	2699.3	2722.7	2806.0	2719.1	5.8
Personal disposable income	bil.$	2173.4	2247.0	2290.0	2321.6	2389.1	2311.9	6.4
Compensation of employees	bil.$	1856.4	1908.5	1946.5	1964.3	2018.2	1959.4	5.5
Corporate after tax profits	bil.$	116.1	122.3	128.6	134.1	138.4	130.9	12.7
Personal saving	bil.$	142.7	131.9	128.1	156.8	136.5	138.3	3.1
Average weekly earnings	$	330.1	335.2	342.3	351.3	355.7	346.2	4.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2719.1	2861.9	2943.5	3027.8	3114.3	2986.9	9.8
Personal disposable income	bil.$	2311.9	2441.3	2508.3	2584.5	2650.4	2546.1	10.4
Compensation of employees	bil.$	1959.4	2036.5	2139.8	2189.7	2269.5	2158.9	10.2
Corporate after tax profits	bil.$	130.9	141.3	148.5	156.2	158.1	151.0	15.4
Personal saving	bil.$	138.3	135.6	151.7	162.7	158.2	152.1	10.0
Average weekly earnings	$	346.2	364.6	369.2	374.9	380.3	372.2	7.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	2986.9	3116.5	3223.8	3246.5	3447.4	3258.6	9.1
Personal disposable income	bil.$	2546.1	2667.3	2747.3	2871.8	2972.8	2814.8	10.5
Compensation of employees	bil.$	2158.9	2295.4	2346.2	2448.9	2544.7	2408.8	11.6
Corporate after tax profits	bil.$	151.0	161.3	165.7	169.4	176.9	168.3	11.5
Personal saving	bil.$	152.1	165.9	163.8	159.1	175.6	166.1	9.2
Average weekly earnings	$	372.2	386.2	391.3	397.5	401.8	394.2	5.9

*Historical data (1) % change over previous year

by Friedman's argument, we will be very lucky, indeed!

There are no significant changes in the forecast of consumer installment credit, business loans, and mortgages.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 22)

There is growing consensus among economists confirming the forecast that has been maintained here for months: Interest rates will edge down slightly in the coming months.

For the short run, KEDI agrees with Volcker, the outlook for interest rates is down. KEDI does not agree with the view that they will continue to fall. The average of the Blue-chip indicators points to declining rates for all of this year and through the first part of 1984. That is disputed here.

Long-term rates are seen as moving down a bit for some months and firming up toward the end of the year. They will stabilize in 1984. KEDI does not see such rates as moving back up to any significant degree in the latter part of next year.

The prime rate is seen as stabilizing around 10.6 per cent in 1983 and above 11 per cent in 1984. The conventional mortgage rate will be in the 11.7 per cent range around the end of this year and will creep up some in 1984. The Federal Reserve will use both tools--interest rates and monetary aggregates to regulate conditions with an emphasis on the interest rates during the second part of this year.

The forecast of the stock market has been slightly increased for the rest of 1983 and for 1984.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits,M1	bil.$	475.4	486.4	502.1	510.2	518.0	504.2	6.1
Time deposits, adjusted,M2	bil.$	1918.2	2031.0	2086.1	2169.4	2207.1	2123.4	10.7
Consumer instal. credit	bil.$	343.4	353.8	359.0	364.6	370.1	370.1	7.8
Commerc.& indus. loans at banks	bil.$	394.6	405.8	410.3	417.5	426.1	426.1	8.0
Large denomination time dep.	bil.$	326.6	323.8	328.9	337.2	345.8	333.9	2.2
Mortgages at S & L Assns.	bil.$	484.3	490.6	500.5	510.2	519.4	519.4	7.2

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits,M1	bil.$	504.2	524.7	532.1	545.1	556.1	539.5	7.0
Time deposits, adjusted, M2	bil.$	2123.4	2239.8	2286.5	2336.1	2410.4	2318.2	9.2
Consumer instal. credit	bil.$	370.1	378.6	387.2	397.0	401.7	401.7	8.5
Commerc.& indus. loans at banks	bil.$	426.1	430.5	444.3	455.2	464.0	464.0	8.9
Large denomination time dep.	bil.$	333.9	353.7	360.2	368.7	382.1	366.2	9.6
Mortgages at S & L Assns.	bil.$	519.4	531.6	545.2	556.0	566.9	566.9	9.1

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Currency and demand deposits,M1	bil.$	539.5	564.4	575.3	583.6	594.7	579.5	7.4
Time deposits, adjusted,M2	bil.$	2318.2	2490.5	2568.4	2654.5	2746.3	2614.9	12.7
Consumer instal. credit	bil.$	401.7	410.5	419.3	427.3	439.2	439.2	9.3
Commerc.& indus. loans at banks	bil.$	464.0	470.2	479.6	487.5	496.3	496.3	7.0
Large denomination time dep.	bil $	366.2	392.4	399.5	412.7	424.7	407.3	11.2
Mortgages at S & L Assns.	bil.$	566.9	574.3	582.7	589.3	599.2	599.2	5.7

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Treasury bills (3 mo) yield	%	10.20	8.07	8.06	8.32	8.72	8.31	-18.5
Prime rate	%	14.86	10.82	10.39	10.26	10.37	10.46	-29.6
Conventional mortgages rate	%	15.57	13.11	12.70	12.34	11.85	12.50	-19.7
Aaa corporate bonds rate	%	13.78	11.81	11.36	11.52	11.71	11.60	-15.8
20 years Govt. bonds yield	%	12.70	10.89	10.96	11.24	11.46	11.14	-12.3
Standard & Poor's 500 avg.	1941-43=100	119.75	145.26	142.47	140.15	138.24	141.53	18.2

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	8.31	8.92	8.81	9.43	10.05	9.30	11.9
Prime rate	%	10.46	10.67	10.81	11.30	11.69	11.12	6.3
Conventional mortgages rate	%	12.50	11.63	11.52	11.40	11.89	11.61	-7.1
Aaa corporate bonds rate	%	11.60	11.79	11.75	11.81	11.73	11.77	1.5
20 years Govt. bonds yield	%	11.14	11.50	11.72	11.91	11.98	11.78	5.7
Standard & Poor's 500 avg.	1941-43=100	141.53	139.47	142.31	137.14	135.26	138.55	-2.9

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Treasury bills (3 mo) yield	%	9.30	9.84	10.06	10.67	11.12	10.42	12.0
Prime rate	%	11.12	11.30	11.47	11.63	11.89	11.57	4.0
Conventional mortgages rate	%	11.61	12.04	12.15	12.43	12.51	12.28	5.8
Aaa corporate bonds rate	%	11.77	11.54	11.62	11.94	12.37	11.87	.8
20 years Govt. bonds yield	%	11.78	12.16	12.37	12.51	12.63	12.41	5.3
Standard & Poor's 500 avg.	1941-43=100	138.55	133.42	136.87	132.43	130.27	133.25	-3.8

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Personal Consumption Expenditures on Durables in Current $ for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.2, February 1983, p.8, (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Virginia, February 1982). The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Consumption Expenditures on Durables, bil. $)

Actual figure: 242.5

	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
Georgia State	11/81	250.0	15	3.1
Harris Trust and Savings Bank	11/11/81	254.8	17	5.1
Metropolitan Life Insurance Co.	12/1/81	260.5	21	7.4
Standard & Poor's Corporation	12/10/81	255.0	24	5.2
Fidelity Bank	12/18/81	254.2	26	4.8
KEDI	1/1/82	245.9	28	1.4
Morgan Guaranty Trust Company	1/7/82	245.7	30	1.3

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

6/28/83 U 2635-1 a

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

Kent Student Center
Kent / Ohio 44242 / U.S.A.

Vol. 8, No. 12, June 1, 1983

KEDI ECONOMIC SURVEY

JUNE 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to:KEDI ECONOMIC SURVEY,Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent OH 44242, U.S.A. Kent State University Foundation, Inc.,and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reporoduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 068300844
KEDI June 1, 1983

© Kent Economic and Development Institute

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 1
1.03 ASSUMPTIONS 3

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 4
1.21 PRICES 6
1.22 NOMINAL GNP 8
1.30 EMPLOYMENT AND LABOR 8
1.41 HOUSING 10
1.42 AUTOMOBILES 14
1.50 BUDGETS 16
1.60 INCOME 18
1.70 MONEY AND CREDIT 20
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 22
3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 24
4.00 HISTORICAL DATA SOURCES 25

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 5
1.10 REAL GROWTH 7
1.21 PRICES 9
1.22 NOMINAL GNP 11
1.30 EMPLOYMENT AND LABOR 12
1.41 HOUSING 13
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 23
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 24
3.00HISTORICAL DATA SOURCES 25

This forecast uses the May, 1983, U.S. Department of Commerce second revised estimates of 1983:1 National Income and Product data. Also used is the May 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Fairly steady, slow growth is still anticipated with acceleration above 4.5 per cent in 1985. Housing and autos are not going to be the giants they once were. That change relating to the structure of the economy is a fundamental reason why growth will not be exceptional. REAL GROWTH The forecast is now for real GNP to expand by 2.5 per cent (yearly annual average). The news is generally good with the factory use rate moving up along with retail sales and foreign trade. Problems continue for steel, new construction, and machine tools. PRICES The forecast is moved up to 3.0 per cent for the change in CPI this year. (Still a rate to be grateful for compared to a few years ago.) Producer prices again edged down a wee bit in April. In May and the following months increases are anticipated. EMPLOYMENT The jobless rate is still seen as averaging about 9.8 per cent this year. HOUSING Despite some recent developments, the forecast is still for starts to be close to 1.5 million this year. The cost of the average home, over $69,000, even though lower than last year, is still out of reach for many ordinary working Americans. AUTOS There is a slight upward move in the projection here with sales predicted by KEDI of 8.8 million. BUDGETS The deficit forecast is lowered for this year by about 5 per cent. It is increased about $4 billion for each of the next two calendar years. INCOME The outlook is the same. Corporate profits will be roughly 6.9 per cent higher this year. MONEY AND CREDIT Signs of the end of easy money are popping up. INTEREST RATES Declines are ending. Some increases are expected for the rest of this year.

1.02 OVERVIEW

The view from here remains cautiously optimistic. The slow recovery is seen as picking up a bit in 1984 and 1985 and pausing the following year. The percentage gain in real GNP over each prior year is presented:

1983	2.5	minor growth
1984	4.5	acceleration
1985	4.7	faster
1986	4.3	slowing
1987	4.6	growth

The basic reason for the hesitancy in the recovery this year and in future years is in our so-called basic industries. Autos and housing are not the pillars of the economy that there were in prior decades. A growing sector of the economy is the service sector.

There will not be averages of two or more million starts in housing. There will not be years where 12 million cars are the norm. There will not be years of shipments of around 100 million tons of steel that was more the norm in the late 1960's and 1970's. That has been stated here repeatedly over many months in KEDI.

Allen Sinai, of Data Resources recently expressed a similar forecast. He referred to the unemployment rate edging down just a percentage point a year. The economist, Frederick Deming of Chemical Bank pointed out that there won't be full recovery for housing and cars for years to come. (Newsweek, May 16, 1983, page 69.) KEDI strongly concurs.

The forecast of Townsend-Greenspan that came out in May is seen here as basically corresponding with that of this Institute in terms of changes foreseen (in percentage terms in real GNP this year). KEDI is more optimistic about 1984 except for housing.

Housing starts are seen as improving a bit more in 1983 here, but there is a large gap when the forecast for 1984 is compared, with KEDI being much more pessimistic. The Townsend-Greenspan percentage gain for that year would translate into roughly more than two million units. KEDI does not see that possible.

As can be seen, the two are in rough agreement as to the drift

OVERVIEW

of the CPI whereas KEDI sees personal income as inching ahead just a bit more (in real terms.)

Percentage change in year-to-year indicators

(T-G = Townsend-Greenspan)

	1983		1984	
	KEDI	T-G	KEDI	T-G
Real GNP	2.5	2.5	4.5	4.1
Housing starts	45.7	40.8	5.4	20.9
CPI	3.0	3.1	4.6	4.7
Personal income	2.7	2.1	3.9	3.6

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the No.3 is updated.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; and in 1986, $32 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1986 period. In the second half of 1983 some increases, and in 1984-1985 stabilizing are expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1983 and 1984 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China in these years. U.S. record crops are expected in 1985-1986.

6. Average rates of growth in 1983-1986 in the major industrial

ASSUMPTIONS

countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are assumed.

The June 1983 KEDI forecast is highlighted on page 5.

1.10 REAL GROWTH

(Table 1.10 on page 7)

The forecast for growth is only slightly altered in this issue. There is a reduction in the projection of the annual average change in real GNP to 2.5 from 2.6 per cent. This, and the like change in the previous month is mainly due to the downward revision of the U.S. Department of Commerce estimate of GNP for the first quarter of this year.

In general, mild good news has been prevailing. However, there are still trouble spots in some industries.

1. The factory use rate moved ahead to 71.1 per cent of capacity in April. That brought it to the highest level in more than a year.

2. Retail sales gained 1.6 per cent in April. That followed a move ahead of 1.7 per cent in March. Sales in April were a seasonally adjusted $94.22 billion. For the first quarter of this year three retailers, K-Mart, May Co, and Allied Stores, showed healthy gains in profits.

3. The Index of Industrial Production rose from 129.7 in March to 142.6 in April, seasonally adjusted.

4. The trade deficit showed a decline. A rare gain in U.S. exports helped cut the merchandise trade deficit for the first quarter by nearly one-third. A large decline in oil imports helped. The foreign trade deficit narrowed to $8.4 billion.

5. Purchasing managers surveyed reported that employment improved

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1476.1	1513.3	1726.6	1806.0
Index of industrial production	1967= 100	138.6	145.2	183.3	192.6
Capacity utilization	%	69.8	71.9	81.5	83.7
Unemployment rate	%	9.7	9.8	7.3	6.9
Private housing starts	mil.	1.061	1.495	1.624	1.714
Car sales	mil.	8.0	8.8	5.5	5.6
Implicit GNP price deflator	1972= 100	207.1	216.8	253.7	268.0
Consumer price index	1967= 100	288.6	297.2	341.4	360.9
Producer price index*	1967= 100	280.6	286.2	333.9	351.3
Federal deficit	bil.$	-149.3	-185.7	-98.7	-84.7
Personal income	bil.$	2569.9	2726.7	3486.3	3796.6
Prime rate	%	14.86	10.60	12.03	11.84
Mortgage rate	%	15.57	12.44	13.67	12.79
Currency plus demand deposits	bil.$	475.4	506.2	622.5	665.4
Commercial and industrial loans	bil.$	394.6	425.1	525.9	559.0

* Finished goods

In the May 1, 1983 issue, by typing error, incorrect data for the 1986 and 1987 Index of Industrial Production are presented. Correct data are: 1986--179.8; 1987--191.6. In this issue the IIP data for 1986 and 1987 have been revised upwards. KEDI regrets the inconvenience.

for 18 per cent of those polled, whereas 17 per cent had fewer workers. The number of members reporting fewer new orders was the lowest in four years.

Problems still exist as can be seen in the following developments.

6. Raw steel shipments were down to 5.5 million tons in April from the 6.0 million tons level in March. Steel shipments were down to 1.697 million tons in the week ended on May 21. In the last week in May, it edged down again to 1.627 million tons. Production amounted to a paltry 56.3 per cent of capacity that week.

7. New construction contracts declined 2 per cent in April from the March level. Still, the first four months of this year were an improvement over the same period in 1982. The gain was 14 per cent for those months.

8. Machine tool orders were off by 5 per cent in April from the March level. Shipments were down by 14 per cent. For the first four months of this year, orders were 34 per cent lower than in the same period of 1982. It should be noted that 1982 was the worst year for machine tools since the mid-1940's. The worst is seen as over. Declines are bottoming out here.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The projection of the change in the CPI for this year is revised upward in this issue. That is mainly due to the April rise attributed to the retail price increases of such things as food. Last month, the forecast was at 2.7 per cent. Now, the CPI is projected as gaining 3.0 per cent for 1983 over 1982.

During April, inflation was up an adjusted 0.6 per cent. It is not seen here as gaining at that rate--or anywhere near it--

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally
adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1476.1	1486.5	1504.6	1520.7	1541.4	1513.3	2.5
Index of industrial product.	1967=100	138.6	138.0	142.3	147.5	152.9	145.2	4.8
Unemployment rate	%	9.7	10.4	10.0	9.6	9.3	9.8	1.2
Capacity utilization rate	%	69.8	68.8	70.6	72.4	75.7	71.9	3.0
Private housing starts	mil. units	1.061	1.693	1.538	1.506	1.421	1.495	40.4
Car sales	mil. units	8.0	8.4	8.8	8.8	9.0	8.8	10.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1513.3	1555.8	1572.1	1588.7	1607.1	1580.9	4.5
Index of industrial product.	1967=100	145.2	155.4	158.2	163.1	168.5	161.3	11.1
Unemployment rate	%	9.8	9.1	9.0	8.6	8.2	8.7	-11.4
Capacity utilization rate	%	71.9	77.0	77.6	79.7	80.1	78.6	9.3
Private housing starts	mil. units	1.495	1.479	1.665	1.788	1.607	1.635	9.4
Car sales	mil. units	8.8	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1580.9	1622.8	1642.8	1667.2	1685.3	1654.5	4.7
Index of industrial product.	1967=100	161.3	171.2	173.5	175.7	178.3	174.7	8.3
Unemployment rate	%	8.7	8.1	7.9	7.8	7.3	7.8	-10.6
Capacity utilization rate	%	78.6	81.1	82.7	83.1	83.4	82.6	5.1
Private housing starts	mil. units	1.635	1.526	1.739	1.861	1.622	1.687	3.2
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

PRICES

during the rest of the year. If it did, inflation for the year would be above 7 per cent. It is forecast at less than half that amount. One influence on the relatively rate was the added tax of 5 cents a gallon on gasoline.

There is good news in the PPI. Wholesale prices were off by 0.1 per cent in April due to a drop in energy costs. That marked the third decline in four months. Home heating oil was off 6.3 per cent while natural gas costs declined 3.5 per cent. KEDI projections show that the PPI for May will go up and continue to climb throughout the rest of the year.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

The forecast of the nominal value of GNP for 1983 has been revised downward mainly due to the downward revision of the forecast of real GNP. Correspondingly, projection of Personal Consumption Expenditures is slightly lower when compared with the May forecast.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 12)

The forecast remains the same. Declines in joblessness will be very slow. The civilian unemployment rate was at 10.2 per cent in April. That was a 0.1 percentage point drop from the March level of 10.3 per cent. KEDI sees the May rate as being closer to 10.1 per cent.

	Unemployment	
	Rates(%)	Numbers(mil.)
1983	9.8	102.9
1984	8.7	108.1
1985	7.8	113.1
1986	7.3	115.7
1987	6.9	119.9

The table shows that unemployment rates will be at historically high levels. HOWEVER, THE EMPLOYMENT PICTURE WILL BE IMPROVING STEADILY. There will be more jobs. The main increases in jobs

1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	288.6	292.5	295.0	298.9	302.2	297.2	3.0
Producer price index,n.s.a.**	1967=100	280.6	283.4	285.2	287.4	288.9	286.2	2.0
Price deflators:								
GNP	1972=100	207.1	213.3	215.8	217.9	220.1	216.8	4.7
Personal cons. expenditures	1972=100	206.0	211.1	213.2	215.2	217.6	214.3	4.0
Gross private dom.investment	1972=100	214.3	214.6	217.5	220.1	223.4	218.9	2.1
Federal purchases	1972=100	221.7	231.6	233.4	235.4	238.0	234.6	5.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	297.2	305.8	308.9	311.8	314.2	310.2	4.4
Producer price index,n.s.a.**	1967=100	286.2	294.3	297.3	302.7	308.5	300.7	5.1
Price deflators:								
GNP	1972=100	216.8	223.2	226.1	230.8	233.6	228.4	5.4
Personal cons. expenditures	1972=100	214.3	220.0	223.1	227.6	230.6	225.3	5.1
Gross private dom.investment	1972=100	218.9	225.1	227.8	232.0	235.7	230.2	5.2
Federal purchases	1972=100	234.6	240.8	243.1	246.7	250.2	245.1	4.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	310.2	317.5	321.4	326.5	332.4	324.5	4.6
Producer price index,n.s.a.**	1967=100	300.7	313.7	317.5	322.4	326.7	320.1	6.5
Price deflators:								
GNP	1972=100	228.4	236.4	239.1	242.1	244.8	240.6	5.3
Personal cons. expenditures	1972=100	225.3	232.3	234.8	238.0	240.0	236.3	4.9
Gross private dom.investment	1972=100	230.2	238.8	241.6	245.3	248.9	243.7	5.9
Federal purchases	1972=100	245.1	254.0	257.1	260.1	263.5	258.9	5.6

*Historical data (1) % change over previous year **Finished goods

will be in services, high technology, computers, medical and biology instruments, and the defense industry.

Total employment rose by 355,000 civilians to 99.458 million in April. The Congressional Budget Office estimates that increases in defense spending alone will create about 420,000 jobs this year.

The total reported as being unemployed in April came to 11.3 million. Roughly, 5.7 million of the unemployed get some type of benefit. That does not include the discouraged workers that have given up trying to find work. Estimates for this group range from 1.8 to 2.5 million. As the economy begins to pick up, increasing portions of workers that were discouraged will begin to try again. As they get counted in the official unemployed category, that will be an influence on keeping the jobless official total comparatively high.

1.41 HOUSING

(Table 1.41 on page 13)

The forecast is not changed. KEDI maintains the prediction that the high performance of the first few months of this year will not be continued. F.W. Dodge reported that the value of new construction contracts was down an adjusted 2 per cent in April. Even with some decline in mortgage rates, there has been limited opportunity for expansion.

In April, work on new homes was at an annual rate of 1.49 million. That was down 8.4 per cent from the March level.

KEDI is not quite as optimistic as Michael Sumichrast of the National Association of Home Builders about 1984. He expects starts to reach about 1.5 million this year and go as high as 1.7 or 1.8 million in 1984. This Institute agrees with the forecast of 1.5 million for this year, but calculated the rate for 1984 as being in the 1.6 million range.

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	3059.3	3170.9	3246.9	3313.6	3392.6	3281.0	4.7
Personal cons. expenditures	bil.$	1971.1	2054.2	2091.6	2137.2	2193.7	2119.2	7.5
Gross private dom.investment	bil.$	420.2	421.3	449.6	464.2	483.2	454.6	8.2
Net exports	bil.$	20.6	19.0	17.1	12.3	2.7	12.8	-37.9
Government, purchases:								
Federal	bil.$	257.9	274.0	278.4	282.5	290.2	281.3	9.1
State and local	bil.$	389.9	402.5	410.2	417.4	422.8	413.2	6.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3281.0	3472.5	3554.5	3666.7	3754.2	3612.0	10.1
Personal cons. expenditures	bil.$	2119.2	2235.6	2289.1	2361.2	2419.2	2326.3	9.8
Gross private dom.investment	bil.$	454.6	501.3	520.6	540.3	559.1	530.3	16.7
Net exports	bil.$	12.8	6.4	0.7	4.8	-2.3	3.6	-71.9
Government purchases:								
Federal	bil.$	281.3	297.8	308.2	312.3	319.6	309.4	0.0
State and local	bil.$	413.2	431.4	436.0	448.1	458.6	443.5	7.3

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3612.0	3836.3	3927.9	4036.3	4125.6	3981.5	10.3
Personal cons. expenditures	bil.$	2326.3	2462.1	2511.7	2575.7	2627.2	2544.2	9.4
Gross private dom.investment	bil.$	530.3	576.2	600.6	623.6	642.4	610.7	15.2
Net exports	bil.$	3.6	1.2	1.9	2.6	2.3	2.0	-44.0
Government purchases:								
Federal	bil.$	309.4	328.7	335.8	342.1	348.1	338.7	8.4
State and local	bil.$	443.5	468.1	477.9	492.3	505.6	486.0	10.3

*Historical data. (1) % change over previous year

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	112.3	113.4	114.9	115.8	114.1	3.5
Employment	mil.	99.5	100.7	102.0	103.8	105.0	102.9	3.4
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.1	97.4	98.6	100.5	101.6	99.5	3.5
Unemployment rate	%	9.72	10.34	10.02	9.66	9.32	9.84	1.2

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	234.5	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	117.0	117.9	118.8	120.1	118.5	3.9
Employment	mil.	102.9	106.4	107.3	108.5	110.2	108.1	5.1
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.5	103.1	103.9	105.1	106.8	104.7	5.2
Unemployment rate	%	9.84	9.09	8.95	8.64	8.21	8.72	-11.4

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Population	mil.	235.7	237.5	238.1	239.1	240.1	238.7	1.3
Civilian labor force	mil.	118.5	121.0	121.1	123.2	124.5	122.7	3.5
Employment	mil.	108.1	111.2	112.4	113.6	115.4	113.1	4.6
Agriculture	mil.	3.4	3.3	3.3	3.3	3.3	3.3	-0.1
Non agricult.	mil.	104.7	107.9	109.1	110.3	112.1	109.7	4.8
Unemployment rate	%	8.72	8.11	7.93	7.81	7.34	7.80	-10.6

*Historical data (1) % change over previous year

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.656	1.065	.930	.904	.837	.934	42.4
Multifamily housing starts	mil.	.405	.628	.608	.602	.584	.561	13.9
Mobile home shipments	mil.	.238	.252	.276	.289	.273	.272	14.3
Permits authorized	mil.	1.023	1.292	1.370	1.475	1.321	1.365	33.4
1-family unit** price, new	tho.$	84.0	88.4	92.4	94.7	97.3	93.2	11.0
1-family unit** price,existing	tho.$	80.3	82.4	84.5	87.3	90.0	86.1	7.2

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.934	.898	1.030	1.134	.978	1.010	8.1
Multifamily housing starts	mil.	.561	.581	.635	.654	.629	.625	11.4
Mobile home shipments	mil.	.272	.243	.274	.297	.285	.275	1.1
Permits authorized	mil.	1.365	1.380	1.441	1.496	1.467	1.446	5.9
1-family unit** price, new	mil.	93.2	99.0	101.7	104.9	106.0	102.9	10.4
1-family unit** price,existing	tho.$	86.1	91.8	93.0	95.2	96.8	94.2	9.4

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.010	.912	1.080	1.192	.982	1.042	3.2
Multifamily housing starts	mil.	.625	.614	.658	.669	.640	.646	3.4
Mobile home shipments	mil.	.275	.270	.279	.290	.289	.282	2.5
Permits authorized	mil.	1.446	1.279	1.552	1.574	1.452	1.464	1.2
1-family unit** price, new	tho.$	109.2	107.1	109.2	110.7	112.3	109.8	6.7
1-family unit** price,existing	tho.$	94.2	98.7	98.8	99.6	100.7	99.5	5.6

*Historical data (1) % change over previous year **Not seas. adjusted

HOUSING

The Secretary of Housing and Urban Development said that the drop in the FHA-VA home loan rate to 11.5 per cent in early May would open up the home-buying market to as many as another million. KEDI does not agree. That rate is still high and indications are that the FHA-VA home loan rate reduction will be short-lived. The average price of a new home was at $68,900 in both March and April. Such prices coupled with double digit mortgage rates put the new home out of reach for the average wage earner.

Studie by the National Association of Realtors and by the MGIC Corp. showed that 45 per cent of 500 top loan officers surveyed in May expect the mortgage rate floor to be under 11 per cent this year. KEDI does not agree. As has been stated for many months, interest rates would move down in the first part of the year only, edge up a bit and stabilize later in the year. Mortgage rates are still seen in the 11-12 per cent range for 1983.

Mortgage rates considered together with prices and the rather bleak picture for the unemployment rate are the three basic reasons why housing will not show very much improvement in 1984 and the following years. KEDI does not agree with economists that see housing as leading us out of the recession. It would be nice if that were true. Alas, this economy is breaking with past recoveries. Housing is not such a big part of the firm foundation of this economy any more.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast for car sales is revised upwards in this issue. Currently sales are seen as amounting to 8.8 million for 1983 as opposed to 8.7 million in the May issue. For 1984, such sales are seen in the 9.2 million range whereas they were projected at 8.9 million last month.

The reason for the change was the better than expected performance in April and increase in the May and June sales expected--

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	8.8	9.0	8.8	10.0
Domestic	mil.	5.8	6.0	6.4	6.5	6.8	6.5	12.1
Imported	mil.	2.2	2.4	2.4	2.3	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.3	1.4	1.5	1.4	-26.3
Factory shipments	mil.	5.0	6.0	6.5	6.7	6.8	6.5	30.0
Light-duty truck sales	mil.	2.1	2.1	2.2	2.0	2.1	2.1	0.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.8	9.1	9.0	9.4	9.5	9.2	4.5
Domestic	mil.	6.5	6.8	6.8	7.1	7.1	6.9	6.2
Imported	mil.	2.3	2.3	2.2	2.3	2.4	2.3	0.0
Dealers inventories**	mil.	1.4	1.6	1.7	1.6	1.5	1.6	14.3
Factory shipments**	mil.	6.5	6.9	6.8	7.0	7.2	7.0	7.7
Light-duty truck sales	mil.	2.1	2.0	2.2	2.1	2.2	2.2	4.8

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	9.2	9.3	9.5	9.3	9.7	9.5	3.3
Domestic	mil.	6.9	7.0	7.1	7.0	7.2	7.1	2.9
Imported	mil.	2.3	2.3	2.4	2.3	2.5	2.4	4.3
Dealers inventories**	mil.	1.6	1.7	1.7	1.6	1.6	1.6	0.0
Factory shipments**	mil.	7.0	7.2	7.1	7.1	7.4	7.3	4.3
Light-duty truck sales	mil.	2.2	2.2	2.3	2.3	2.2	2.3	4.5

*Historical data (1) % change over previous year **Seas. not adjusted

AUTOMOBILES

despite the Mid-May decline. HOWEVER, 8.8 million for 1983 is still 20-25 per cent below a "normal" rate. The projection for 1984 is still about 15 per cent below what is considered normal for auto sales.

KEDI forecasts domestic car production at 6.5 million for this year. That is in line with most forecasters. It is higher than Bernstein Research as they look to 6.1 million produced this year. For 1984, this Institute estimates production increasing to 7.0 million. The forecast by Bernstein Research of 7.4 million is seen as too high.

Car sales were up 6.6 per cent in early May over the same period in 1982. In mid-May sales were down 2.6 per cent. (GM had a decline of over 14 per cent whereas the other domestic makers had gains.)

KEDI's forecast of market shares made in the January 1, 1983 issue on page 22 has been found close to the reality.

Percentage Share of the Passenger Car Market

	Actual Jan.-May, 1983	KEDI projected in Jan. 1983
GM	58.7	60.0
Ford	21.6	23.1
Chrysler	12.9	12.9

1.50 BUDGETS
(Table 1.50 on page 17)

The main change here is that the projection for the calendar year deficit has been reduced for this year and increases in the next two years.

Federal Deficits, Calendar Years

	KEDI May Projection	KEDI June Projection
1983	196.8	185.7
1984	159.0	163.0
1985	86.5	90.3

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	300.1	297.8	304.1	294.2	307.8	301.0	.3
Corporate prof. tax accruals	bil.$	47.5	53.8	55.4	57.9	59.2	56.7	19.3
Surplus/deficit	bil.$	-149.3	-173.9	-185.7	-202.3	-181.0	-185.7	24.3
State and local governments:								
Income taxes	bil.$	97.1	103.2	103.9	106.1	108.4	105.4	8.5
Corporate prof. tax accruals	bil.$	10.4	11.9	12.8	13.6	14.2	13.1	26.0
Surplus/deficit	bil.$	32.2	42.2	43.4	44.5	45.7	44.0	36.6

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	301.0	310.2	321.4	327.8	337.2	324.2	7.7
Corporate prof. tax accruals	bil.$	56.7	63.2	65.0	68.3	70.2	66.7	17.6
Surplus/deficit	bil.$	-185.7	-175.6	-168.2	-159.7	-148.3	-163.0	12.2
State and local governments:								
Income taxes	bil.$	105.4	111.3	113.9	115.7	116.8	114.4	8.5
Corporate prof. tax accruals	bil.$	13.1	14.7	15.3	15.9	16.6	15.6	19.0
Surplus/deficit	bil.$	44.0	46.9	48.1	49.2	51.3	48.9	11.1

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	324.2	343.5	350.7	359.8	369.4	355.9	9.8
Corporate prof. tax accruals	bil.$	66.7	73.7	75.4	77.8	79.6	76.7	15.0
Surplus/deficit	bil.$	-163.0	-115.4	-92.6	-83.1	-70.2	-90.3	-55.4
State and local governments:								
Income taxes	bil.$	114.4	122.3	124.4	128.3	131.5	126.6	10.7
Corporate prof. tax accruals	bil.$	15.6	17.1	17.4	17.7	18.3	17.6	12.8
Surplus/deficit	bil.$	48.9	52.4	54.3	54.8	55.2	54.2	10.8

*Historical data (1) % change over previous year

BUDGETS

Data released by the U.S. Department of Commerce for the first quarter of 1983 lead to the revision of the forecast here. Reasons are the following:

1. Social security benefits in 1983 are now seen as being approximately $5 billion less that had been expected earlier.
2. Defense expenditures are now anticipated to be about $2 billion lower in 1983 than they were forecast in the last issue.
3. Indirect taxes collected in 1983 will be roughly $2 billion higher than projected by KEDI in May.

The 1985 data include the planned indexing of the Federal Income tax. Calculations show that the impact of this will be fairly minimal--in the $2 billion range in terms of less income tax collected.

KEDI does support the idea of indexation. As Louis Rukeyser pointed out (Akron Beacon Journal, May 21, 1983, page B6.) raising taxes does not eleiminate deficits. It it did, there should have been surpluses during the seventies. The hidden tax resulting from bracket creep when inflation was high was costly to the average person and pushed up unlegislated tax increases at the personal level by over 170 per cent in the 1970's.

1.60 INCOME

(Table 1.60 on page 19)

There are no essential changes in the forecast here.

After-tax corporate profits are projected as being 6.9 per cent higher in 1983 than in 1982. More substantial increases in profits are anticipated in 1984. It will be at least 1984 or later when such profits reach their pre-recession level.

KEDI estimates that industries still hurting will be free of most pain but hardly top specimens in 1984. The ailing steel, auto,

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2569.9	2648.2	2696.7	2744.6	2817.4	2726.7	6.1
Personal disposable income	bil.$	2172.8	2247.2	2288.7	2344.3	2401.2	2320.4	6.8
Compensation of employees	bil.$	1853.9	1908.4	1947.2	1969.4	2025.3	1962.5	5.8
Corporate after tax profits	bil.$	117.7	112.6	120.5	129.3	140.9	125.8	6.9
Personal saving	bil.$	143.2	131.9	134.8	141.4	140.2	137.1	-4.3
Average weekly earnings	$	330.1	342.3	350.7	356.3	362.1	352.9	6.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2726.7	2871.9	2946.2	3038.4	3106.1	2990.7	9.7
Personal disposable income	bil.$	2320.4	2450.4	2510.9	2594.9	2652.1	2552.1	10.0
Compensation of employees	bil.$	1962.5	2073.2	2120.7	2172.5	2222.9	2147.3	9.4
Corporate after tax profits	bil.$	125.8	144.3	147.6	150.7	154.3	149.2	18.6
Personal saving	bil.$	137.1	146.7	152.3	162.4	160.3	155.4	13.3
Average weekly earnings	$	352.9	369.7	375.2	380.1	386.6	377.9	7.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	2990.7	3163.7	3227.3	3308.2	3370.5	3267.4	9.3
Personal disposable income	bil.$	2552.1	2697.9	2752.2	2820.1	2869.6	2785.0	9.1
Compensation of employees	bil.$	2147.3	2258.5	2349.7	2404.3	2542.2	2388.7	11.7
Corporate after tax profits	bil.$	149.2	158.9	164.3	168.3	171.3	165.7	11.1
Personal saving	bil.$	155.4	161.5	164.8	168.2	164.3	164.7	6.0
Average weekly earnings	$	377.9	392.2	399.1	404.7	411.5	401.9	7.0

*Historical data (1) % change over previous year

INCOME

machine tool, and airline industries will be fairly well that year.

After-tax profits expected in 1984 by KEDI are presented:

Steel	$1.0 billion
Automobiles	$2.5 billion
Machine tools	$0.8 billion
Airlines	$1.0 billion

After a small decline, average weekly pay of factory workers moved up in March to $346.50, according to figures released by the Labor Department in May. KEDI anticipates that the average earnings will go up by 7-8 per cent in 1983, 1984, and 1985.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The general forecast is maintained. In KEDI's opinion, M1 is no longer a reliable tool for measuring the amount of money in the U.S. economy or as a guide to policy. New technical tools have changed the original concept of M1. It is anticipated that the Federal Reserve will keep to its policy of concentrating on the broader M2 and M3 while down-playing M1.

KEDI expects that the end of easy money is NOW coming to an end. That has been anticipated here for several months. There was a steady expansion in the money supply up until late May. Despite the fact that the $2.1 billion increase in the last week of May was quite a bit smaller than hikes of the prior four weeks, the Fed will take action to curtail expansion more.

The forecasts of other monetary and credit instruments remain the same with the exception of some decline in the outlook for Treasury bills and Government bonds. The reduction is connected to the decline in the federal deficit projections.

AGAIN, CALCULATIONS SHOW THAT THE PROJECTED NEEDS OF THE FEDERAL GOVERNMENT FOR FUNDS WILL NOT COLLIDE WITH THE NEEDS OF BUSINESS FOR MONEY FOR CAPITAL OUTLAYS. THERE WILL BE NO DAMAGE TO BUSINESS RECOVERY AND GROWTH IN THE FORESEEABLE FUTURE.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	475.4	486.4	506.8	512.3	519.4	506.2	6.5
Time deposits, adjusted, M2	bil.$	1918.2	2031.0	2087.5	2171.2	2208.3	2124.5	10.8
Consumer instal. credit	bil.$	343.4	345.4	351.8	359.6	368.4	368.4	7.3
Commerc.& indus. loans at banks	bil.$	394.6	405.8	409.6	415.4	425.1	425.1	7.7
Large denomination time dep.	bil.$	326.6	323.8	330.8	339.2	344.7	334.6	2.5
Mortgages at S & L Assns.	bil.$	484.3	490.6	509.7	515.6	524.3	524.3	8.3

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	506.2	526.9	534.7	545.1	557.8	541.1	6.9
Time deposits, adjusted, M2	bil.$	2124.5	2240.1	2287.1	2336.4	2411.1	2318.7	9.1
Consumer instal. credit	bil.$	368.4	372.2	378.4	389.6	398.7	398.7	8.2
Commerc.& indus. loans at banks	bil.$	425.1	430.7	437.5	444.3	451.6	451.6	6.2
Large denomination time dep.	bil.$	334.6	348.6	354.8	362.6	373.4	359.9	7.6
Mortgages at S & L Assns.	bil.$	524.3	533.5	547.7	559.2	569.3	569.3	8.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	541.1	564.9	576.8	584.9	596.3	580.7	7.3
Time deposits, adjusted, M2	bil.$	2318.7	2467.3	2544.2	2628.6	2720.2	2590.1	11.7
Consumer instal. credit	bil.$	398.7	408.4	416.5	423.4	433.7	433.7	8.8
Commerc.& indus. loans at banks	bil.$	451.6	460.2	468.7	477.8	486.5	486.5	7.7
Large denomination time dep.	bil $	359.9	381.4	388.5	397.4	408.6	394.0	9.5
Mortgages at S & L Assns.	bil.$	569.3	576.5	584.3	593.5	602.8	602.8	5.9

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 23)

It has been projected here for some time that small declines in interest rates would end by the second half of 1983, after which there would be some increases toward the end of the year.

The first signals pointing to that change are being seen. The rates on 6-month CDs went up toward the end of May to 8.97 from 8.64 at savings and loan institutions. At the end of the month, the rate went up again to 9 per cent. Also, the yield on six-month T-bills went up to 8.6 from 8.47.

Paul Volcker announced that the Federal Reserve does not want to push rates down. He noted the recent gains in the economy. It is generally acknowledged that added pressure to decrease rates more would add to fears of inflation.

The forecast of the stock market remain essentially unchanged. KEDI projection shows that the 1200 Dow Jones Industrials performance is a peak for the 1983-1985 period. No significant declines are projected for that perios, however. The year averages for Dow Jones Industrials and Standard & Poor's 500 are:

	Dow Jones Industrials	Standard & Poor's 500
1983	1150	142
1984	1140	138
1985	1090	132

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	10.20	8.07	8.06	8.31	8.72	8.29	-18.7
Prime rate	%	14.86	10.82	10.42	10.51	10.63	10.60	-28.7
Conventional mortgages rate	%	15.57	13.11	12.48	12.29	11.86	12.44	-20.1
Aaa corporate bonds rate	%	13.78	11.81	11.42	11.56	11.84	11.66	-15.4
20 years Govt. bonds yield	%	12.70	10.89	10.94	11.14	11.37	11.09	-14.7
Standard & Poor's 500 avg.	1941-43=100	119.75	145.26	142.75	141.23	138.06	141.83	18.4

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	% .	8.29	8.87	8.92	8.95	9.06	8.95	8.0
Prime rate	% .	10.60	10.68	10.81	11.12	11.23	10.96	3.4
Conventional mortgages rate	%	12.44	11.53	11.32	11.46	11.78	11.52	-7.4
Aaa corporate bonds rate	%	11.66	11.93	11.76	11.92	12.04	11.91	2.1
20 years Govt. bonds yield	%	11.09	11.54	11.83	12.03	12.14	11.89	7.2
Standard & Poor's 500 avg.	1941-43=100	141.83	138.53	141.65	137.12	135.21	138.13	-2.6

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	8.95	9.14	9.36	9.63	9.32	9.36	4.6
Prime rate	%	10.96	11.34	11.49	11.60	11.86	11.57	5.6
Conventional mortgages rate	%	11.52	11.84	11.76	11.85	11.94	11.85	2.9
Aaa corporate bonds rate	%	11.91	12.08	11.95	11.83	11.90	11.94	.3
20 years Govt. bonds yield	%	11.89	12.75	12.93	12.98	13.15	12.95	8.9
Standard & Poor's 500 avg.	1941-43=100	138.13	133.05	134.57	131.78	129.64	132.26	-4.2

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Federal Government Purchases of Goods and Services in Current $ for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.4, April 1983, p.12, (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982). The following table shows the predictions of forecasters and deviation of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Federal Government Purchases of Goods and Services, in bil.$)

Actual figure: 257.9

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
Georgia State	11/81	15	257.9	.0
Harris Trust and Saving Bank	11/11/81	17	252.9	-1.9
UCLA	12/81	20	249.4	-3.3
Metropolitan Life Insurance Company	12/1/81	21	253.8	-1.6
Manufacturers Hanover Trust Company	12/11/81	25	251.7	-2.4
Standard & Poor's	12/10/81	24	250.6	-2.8
Fidelity Bank	12/18/81	26	246.3	-4.5
KEDI	1/1/82	28	255.2	-1.0
Morgan Guaranty Trust Company	1/7/82	30	251.8	-2.4

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep., M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr. loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

7/12/83

U2635-1 a

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

Kent Student Center
Kent / Ohio 44242 / U.S.A.

Vol. 9, No. 1, July 1, 1983

KEDI ECONOMIC SURVEY

JULY 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 078300854
KEDI July 1, 1983

© Kent Economic and Development Institute

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 1
1.03 ASSUMPTIONS 3

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 3
1.21 PRICES 8
1.22 NOMINAL GNP 10
1.30 EMPLOYMENT AND LABOR 10
1.41 HOUSING 12
1.42 AUTOMOBILES 14
1.50 BUDGETS 16
1.60 INCOME 16
1.70 MONEY AND CREDIT 18
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 20

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 23

4.00 HISTORICAL DATA SOURCES 24

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 4
1.10 REAL GROWTH 5
1.21 PRICES 7
1.22 NOMINAL GNP 9
1.30 EMPLOYMENT AND LABOR 11
1.41 HOUSING 13
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 22
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 23
3.00 HISTORICAL DATA SOURCES 24

This forecast uses the June, 1983, U.S. Department of Commerce third revised estimates of 1983:1 National Income and Product data. Also used is the June 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Growth for 1983 is projected now in the 3.0 per cent range. The second quarter was an improvement over the first quarter, but inventory changes somewhat exaggerated the growth. REAL GROWTH Mixed news with industrial output creeping up but at a slower rate than in the prior two months. The continued rising of the factory use rate and retail sales is somewhat balanced by the small durable goods orders gain and problems in steel and machine tools. PRICES The 0.5 per cent gain in May is not the start of the trend. Inflation is now forecast at 3-3.5 per cent in terms of CPI changes. EMPLOYMENT The 1/10 of a per cent move down in the jobless rate is in line with the forecast here of gradual--very gradual--improvement here to a fourth quarter average of rougly 9.3 per cent. HOUSING Starts are now seen as reaching 1.6 million this year. The supply on hand is too high for housing to have substantial gains or reach a more normal average of 1.8 to 2.0 million. AUTOS The forecast is not changed despite the mid-June leap. GOVERNMENT BUDGETS State tax increases and social security contributions expansion negate the mid-year tax credit. The federal deficit forecast for fiscal 1984 is now $172 billion. INCOME The forecast is adjusted slightly with personal income seen as expanding 5.9 per cent this year. Savings are being adversly affected by more state and local taxes to pay and higher utilities. MONEY AND CREDIT M1 is forecast here as expanding 7.0 per cent, Fed's tightening has been projected for two years. INTEREST RATES They will be going up as projected. The prime rate will go up to 11.8 per cent by year's end. Mortgage rates will end the year in the 12.5 per cent range.

1.02 OVERVIEW

The Commerce Department projected 1983 second quarter growth at an annual rate of 6.6 per cent based on tentative data. Much publicity was generated from that in terms of very positive interpretations

OVERVIEW

of the "sparkling economy," "strongest sign," etc.

The second quarter certainly will show a great improvement over the 2.6 per cent growth rate of the first quarter, but KEDI projects the rate at a somewhat less sparkling 6.0 per cent. The reason is found in the changes in inventories. The increase in inventories in the second quarter coming on the heels of a decline of over $15 billion in the first quarter accounts for around $20 billion of the GNP. That is, it has not been totally the production of final goods and services that contribute to the growth as about two-thirds of the change came from inventories. In the table here, the KEDI figure of 6 per cent growth is used to compare the components of GNP between the first and second quarter.

Comparison of GNP and Components in Constant 1972 $

	1983:1 Actual data	1983:2 KEDI estimate
GNP Components:		
Personal Cons. Expenditures	972.9	980.0
Gross Private Domestic Investment	196.7	222.6
Fixed Investment	212.2	217.2
Change in Inventories	-15.1	5.4
Net Exports	24.7	17.7
Government Expenditures	292.4	295.1
GNP Total	1486.7	1515.4

Data for all components of GNP except those for inventories change show a modest growth. The drop in inventories in the first quarter made the second quarter GNP figure seem better than it is--but it is still quite good.

KEDI agrees with Edward Yardeni of Prudential-Bache that growth for the rest of the year will slow down to the 2-3 bracket. To be more specific, growth is now seen here as being closer to 3 per cent than to 2.5 when this year is compared to 1982. When looking at the fourth quarter of this year, expansion is forecast at an annual rate of 5 per cent as compared to the like period of the prior year. To summarize, KEDI agrees that recovery is on the way. It is just not quite as robust as 6.6 per cent.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; in 1986, to $32 per barrel; and in 1987, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In the second half of 1983 some increases, and in 1984-1985 stabilizing are expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1983 and 1984 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China in these years. U.S. record crops are expected in 1985-1986.

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are assumed.

The July 1983 KEDI forecast is highlighted on page 4.

1.10 REAL GROWTH

(Table 1.10 on page 5)

There is mixed economic news. Fortunately, the preponderance is on the bright side. There is good news in terms of industrial output, new orders, retail sales. factory shipments, and factory use, but problems do and will continue for machine tools, plant and equipment spending, and steel, for example.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1476.1	1519.7	1724.9	1800.8
Index of industrial production	1967= 100	138.6	146.2	185.6	196.9
Capacity utilization	%	69.8	73.1	81.0	82.7
Unemployment rate	%	9.7	9.8	7.4	6.8
Private housing starts	mil.	1.061	1.576	1.674	1.710
Car sales	mil.	8.0	8.8	9.7	10.0
Implicit GNP price deflator	1972= 100	207.1	217.1	254.9	269.9
Consumer price index	1967= 100	288.6	297.8	342.3	361.5
Producer price index*	1967= 100	280.6	286.2	335.9	353.3
Federal deficit	bil.$	-149.3	-186.9	-98.4	-84.0
Personal income	bil.$	2569.9	2720.6	3457.2	3695.7
Prime rate	%	14.86	10.84	12.14	11.73
Mortgage rate	%	15.57	12.60	13.62	12.81
Currency plus demand deposits	bil.$	475.4	508.7	612.5	649.9
Commercial and industrial loans	bil.$	394.6	418.9	495.5	524.2

* Finished goods

In the June 1, 1983 issue, by typing error, incorrect data for the 1986 and 1987 Car Sales are presented. Correct data are: 1986--9.7; 1987--10.0. KEDI regrets the inconvenience.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Gross national product,1972$	bil. 1972 $	1476.1	1486.7	1515.4	1531.3	1545.5	1519.7	3.0
Index of industrial product.	1967=100	138.6	138.0	144.2	148.8	153.6	146.2	5.9
Unemployment rate	%	9.7	10.4	10.0	9.6	9.3	9.8	1.2
Capacity utilization rate	%	69.8	68.8	72.4	74.3	76.8	73.1	4.7
Private housing starts	mil. units	1.061	1.693	1.605	1.600	1.416	1.576	48.5
Car sales	mil. units	8.0	8.4	8.8	8.8	9.0	8.8	10.0

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product,1972$	bil. 1972 $	1519.7	1560.9	1582.8	1597.9	1616.7	1589.6	4.6
Index of industrial product.	1967=100	146.2	158.1	162.3	166.7	170.1	164.3	12.4
Unemployment rate	%	9.8	9.1	9.0	8.6	8.2	8.7	-11.4
Capacity utilization rate	%	73.1	78.0	79.6	80.1	81.1	79.7	9.0
Private housing starts	mil. units	1.576	1.481	1.818	1.830	1.607	1.684	6.9
Car sales	mil. units	8.8	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product,1972$	bil. 1972 $	1589.6	1628.3	1644.7	1664.5	1684.0	1655.4	4.1
Index of industrial product.	1967=100	164.3	173.2	175.6	177.3	178.9	176.3	7.3
Unemployment rate	%	8.7	8.1	7.9	7.8	7.3	7.8	-10.6
Capacity utilization rate	%	79.7	81.5	82.0	82.6	82.7	82.2	3.1
Private housing starts	mil. units	1.684	1.546	1.733	1.761	1.583	1.656	-1.6
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

REAL GROWTH

The Federal Reserve Board estimates that industrial production went up by 7 per cent between last November and May whereas the average gain in the first half year of prior post-war recoveries was 7.8 per cent. That is in line with the view spelled out in the Overview section. That is, the recovery is not as strong as it looks when considering the preliminary 6.6 per cent figure for second quarter growth.

Positive Developments

1. Industrial output went up by 1.1 per cent in May. Still, that is below the April gain of 2.0 per cent and the March increase of 1.3 per cent. The index was at 144.3 per cent of the 1967 average in May. That is up 3.7 per cent from a year ago. However, it was still below the peak of 1953.9 reached in July of 1981.

2. New orders by manufacturerers gained over $8 billion to reach $166.06 billion in April. Unfilled orders were up by close to $3 billion from the March level.

3. Retail sales in May increased by 2.1 per cent from the adjusted April level. That was not quite as robust as it seems in that the role of housing and autos were influential, but they are not seen here as steadily gaining at fast pace. The May gain for retail sales was the third consecutive improvement. Stores specializing in durable goods sales were up by 3.9 per cent in May. Nondurable sales, such as food and clothing, increased 1.3 per cent. Early data for June indicate that June durable goods sales were again up by approximately 3.4 per cent and nondurable sales by a modest 1.1 per cent increment.

4. Factory shipments continue to gain slowly but surely. In April, they rose to $163.37 from the March figure of $161.8 billion. KEDI forecast shows that factory shipments will keep increasing an average of $3 billion a month throughout the rest of the year.

5. The factory use rate edged up again to 72 per cent in May.

Transitional Developments

6. Durable goods orders showed a very small gain. Actually, the tiny

1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	288.6	292.5	297.0	299.6	302.2	297.8	3.2
Producer price index,n.s.a.**	1967=100	280.6	283.4	285.0	287.5	289.0	286.2	2.0
Price deflators:								
GNP	1972=100	207.1	213.3	216.3	218.3	220.9	217.1	4.8
Personal cons. expenditures	1972=100	206.0	211.0	213.3	215.3	217.7	214.3	4.0
Gross private dom.investment	1972=100	214.3	214.4	217.9	220.8	224.1	219.3	2.3
Federal purchases	1972=100	221.7	231.3	233.4	235.2	237.8	234.4	5.7

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	297.8	305.9	309.8	312.8	315.4	310.9	4.4
Producer price index,n.s.a.**	1967=100	286.2	294.5	297.7	302.9	308.9	301.0	5.2
Price deflators:								
GNP	1972=100	217.1	223.6	226.8	230.9	234.2	228.9	5.4
Personal cons. expenditures	1972=100	214.3	220.2	223.2	227.7	230.7	225.5	5.2
Gross private dom.investment	1972=100	219.3	225.7	228.6	232.9	236.8	231.0	5.3
Federal purchases	1972=100	234.4	240.7	243.1	246.8	250.2	245.2	4.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	310.9	317.9	322.0	327.0	333.4	325.1	4.6
Producer price index,n.s.a.**	1967=100	301.0	314.2	318.1	323.1	327.3	320.7	6.5
Price deflators:								
GNP	1972=100	228.9	236.9	239.7	242.6	245.4	241.2	5.4
Personal cons. expenditures	1972=100	225.5	232.5	235.0	238.3	240.4	236.8	5.0
Gross private dom.investment	1972=100	231.0	240.2	243.7	247.1	251.2	245.6	6.3
Federal purchases	1972=100	245.2	254.1	257.3	261.1	263.9	269.1	5.7

*Historical data (1) % change over previous year **Finished goods

addition can be viewed as negative news if one is looking for lots of recovery strength. New orders were up just a tad in May to an adjusted $83.60 billion from the April total of $83.41.

7. Machine tools continue around the bottom even though orders were up by 28 per cent in May. The total of May, 1982, was quite weak, indeed, making a comparison misleading. For the first four months of this year, orders were off by 34 per cent from the depressed like period of last year. According to Burk Kalweit of the National Machine Tool Builders Association, since 1980 there has been a cut of about 44,000 workers in machine tools to roughly 66,000 this year. Weak demand and expanding imports have taken their toll.

8. Plant and equipment spending will average 3.1 per cent less this year than last, after adjustment for inflation according to a survey of the Commerce Department. Spending was off by 5.5 per cent in 1982 after barely growing at all in 1981. (One is reminded of the old chicken and egg question: has low demand for products led to low levels of improvements or expansion in U.S. plants, or has lack of "updating" caused American products to be less in demand due to cheaper and/or better foreign goods? The answer is not simple.)

Overall, the picture that emerges from the continued mixed news that leans to the good side is a confirmation of KEDI's forecast of slow growth.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 7)

The forecast is slightly increased. In May, consumer prices increased by 0.5 per cent and approximately 0.6 gain is expected to take place in June. More than half of the May change was caused by hikes in energy-product prices. KEDI does not anticipate any more gains in oil prices. The view of John Lichtblau of the Petroleum Research Foundation that oil-market pressures will be on the down side is shared here.

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	3059.3	3170.5	3277.3	3342.9	3414.4	3281.0	7.7
Personal cons. expenditures	bil.$	1971.1	2052.9	2090.7	2132.1	2173.3	2112.2	7.2
Gross private dom. investment	bil.$	420.2	421.7	487.2	503.6	522.6	483.7	8.2
Net exports	bil.$	20.6	19.6	13.4	12.5	11.2	14.2	-31.1
Government, purchases:								
Federal	bil.$	257.9	274.1	278.4	282.1	289.2	281.0	9.0
State and local	bil.$	389.9	402.2	408.0	412.6	418.1	410.2	5.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3281.0	3490.8	3589.8	3690.2	3786.7	3612.0	10.1
Personal cons. expenditures	bil.$	2112.2	2224.9	2287.6	2359.7	2420.0	2323.1	10.0
Gross private dom. investment	bil.$	483.7	535.6	556.0	572.7	592.7	564.2	16.6
Net exports	bil.$	14.2	7.4	5.3	5.0	4.2	5.5	-61.3
Government purchases:								
Federal	bil.$	281.0	297.2	307.9	311.9	318.8	309.0	10.0
State and local	bil.$	410.2	425.7	433.0	440.9	451.0	437.6	6.7

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3612.0	3857.9	3942.9	4038.8	4132.7	3981.5	10.3
Personal cons. expenditures	bil.$	2323.1	2461.9	2509.6	2569.6	2611.8	2539.6	9.3
Gross private dom. investment	bil.$	564.2	607.0	619.7	638.0	657.1	630.7	11.8
Net exports	bil.$	5.5	-.3	.1	1.6	2.9	1.1	-80.0
Government purchases:								
Federal	bil.$	309.0	328.1	335.2	341.2	347.2	337.9	9.4
State and local	bil.$	437.6	461.2	478.3	488.4	508.7	484.2	10.6

*Historical data (1) % change over previous year

PRICES

This Institute expects inflation this year will be in the 3.0 per cent range. The outlook of Donald Ratajczak of Georgia State for price increases Of 4.-4.5 per cent is seen here as just too high. In terms of the CPI, the main increases in the latter half of this year are seen in food, entertainment, and medical services. Prices for small autos will remain stable.

In the last issue, KEDI forecast that producer prices would rise in May. They had been declining in April. Data released in mid-June confirmed the forecast. Producer prices were up 0.5 per cent for finished goods in May. The index for intermediate goods rose 0.4 per cent, whereas the index for crude goods was unchanged. KEDI agrees with Susan Lakatos of Washington Analysis Corp. that the PPI will rise by 1.5-2 per cent this year. That would make it the lowest gain since 1970. More significant increases in prices of crude materials are expected in the last six months of this year. In terms of finished products, main gains are forecast for food (meat included). However, the second half of this year can still be viewed as recording "gentle" hikes in the overall indexes.

1.22 NOMINAL GNP

(Table 1.22 on page 9)

The forecast of the nominal value of GNP and components remains essentially unchanged. As compared with the June forecast values of Gross Private Domestic Investment have been increased mainly due to the upward revision of inventory changes in 1983 and 1984, and values of Net Exports have been slightly decreased due to the upward revision of anticipated import prices.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

No significant drops in the unemployment rate are forecast. The projection here for the average of the fourth quarter of this year is 9.3 per cent. That is roughly in line with the outlook of the Administration.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	112.3	113.4	114.9	115.8	114.1	3.5
Employment	mil.	99.5	100.7	102.0	103.8	105.0	102.9	3.4
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.1	97.4	98.6	100.5	101.6	99.5	3.5
Unemployment rate	%	9.72	10.34	10.02	9.66	9.32	9.84	1.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.5	234.5	234.5	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	117.0	117.9	118.8	120.1	118.5	3.9
Employment	mil.	102.9	106.4	107.3	108.5	110.2	108.1	5.1
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.5	103.1	103.9	105.1	106.8	104.7	5.2
Unemployment rate	%	9.84	9.09	8.95	8.64	8.21	8.72	-11.4

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Population	mil.	235.7	237.5	238.1	239.1	240.1	238.7	1.3
Civilian labor force	mil.	118.5	121.0	121.1	123.2	124.5	122.7	3.5
Employment	mil.	108.1	111.2	112.4	113.6	115.4	113.1	4.6
Agriculture	mil.	3.4	3.3	3.3	3.3	3.3	3.3	-0.1
Non agricult.	mil.	104.7	107.9	109.1	110.3	112.1	109.7	4.8
Unemployment rate	%	8.72	8.11	7.93	7.81	7.34	7.80	-10.6

*Historical data (1) % change over previous year

EMPLOYMENT AND LABOR

A bit of good news is found in jobless claims. The figures have been going down. Even though 432,000 jobless Americans applied for unemployment benefits for the first time in early June, it was the lowest total since the latter part of 1981.

There was some change in the adjusted rate of unemployment "down" to 10.1 per cent in May from 10.2 in April. Close to 11.2 million were out of work. The job market will continue to be too narrow for too broad a sample of millions of Americans for years to come. KEDI does not project the rate as edging down to the low 7 per cent range until well into 1987. It is calculated as declining by about 0.8 per cent in each of the next two years.

Joint Economic Committee economist Paul Manchester pointed out the average length of unemployment rose to 20.4 weeks in May. That is the highest average ever reported.

By state, unemployment in April ranged from a high of 19 per cent in West Virginia and 15.5 per cent in Michigan to a low of 6.1 in Hawai and 6.2 in South Dakota. KEDI's forecast shows that the unemployment pattern by states will remain fairly stable in the 1984-1986 period. High unemployment will persist in Michigan, West Virginia, Ohio, Washington, Illinois, Indiana, Alabama, Washington, and Pennsylvania. Low level unemployment is expected in Texas, Hawaii, Delaware, Georgia, Kansas, Massachusetts, New Hampshire, Dakotas, Virginia, and Vermont.

1.41 HOUSING

(Table 1.41 on page 13)

The forecast is somewhat changed with housing starts seen as amounting to 1.6 million this year as opposed to 1.5 million. The May gain was a little better than had been expected here--and elsewhere. For example, the Mortgage Bankers Association is likely to have moved its estimate up above 1.5 million by the time the reader sees this.

Housing starts in May were up by 19.1 per cent from the April

TABLE 1.41 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.656	1.065	1.009	1.004	.842	.980	49.4
Multifamily housing starts	mil.	.405	.628	.606	.596	.574	.601	48.4
Mobile home shipments	mil.	.239	.282	.284	.289	.265	.280	17.2
Permits authorized	mil.	1.000	1.464	1.548	1.507	1.421	1.485	48.5
1-family unit** price, new	tho.$	84.0	88.4	92.3	94.5	97.0	93.1	10.8
1-family unit** price,existing	tho.$	80.3	82.4	84.5	87.0	89.8	85.9	7.0

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.980	.899	1.182	1.176	.978	1.059	8.1
Multifamily housing starts	mil.	.601	.582	.636	.654	.629	.625	4.0
Mobile home shipments	mil.	.280	.274	.286	.290	.285	.284	1.4
Permits authorized	mil.	1.485	1.297	1.514	1.406	1.406	1.416	-4.6
1-family unit** price, new	mil.	93.1	98.0	99.3	102.7	104.1	101.0	8.5
1-family unit** price,existing	tho.$	85.9	91.0	92.1	94.0	96.1	93.3	8.6

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.059	.932	1.075	1.091	.982	1.020	-3.7
Multifamily housing starts	mil.	.625	.614	.658	.669	.601	.636	1.8
Mobile home shipments	mil.	.284	.265	.277	.280	.264	.272	-4.2
Permits authorized	mil.	1.416	1.280	1.559	1.580	1.461	1.470	3.8
1-family unit** price, new	tho.$	101.0	105.0	106.2	107.7	109.3	107.1	6.0
1-family unit** price,existing	tho.$	93.3	97.2	98.0	98.6	99.2	98.3	5.4

*Historical data (1) % change over previous year **Not seas. adjusted

level. The annual rate was at an adjusted 1.791 level. Being somewhat of a "wet blanket," it is necessary to point out the April rate was a bit drained by the very wet weather. Building permits were up by 5.6 per cent from the April level.

There were also good news from the housing resale side. Single-family resales increased by 5 per cent in May. Sales were at an annual rate of 2.86 million units. The median price here was $69,300. Still, most of the gain came before the mortgage rate went back close to 13 per cent toward the end of the month. Jack Carlson of the National Association of Realtors estimated that there were 2.41 million houses for sale at the end of May representing a 10.1 month supply.

Speaking of supply, there is just too much of it. That also is hardly a push toward more building. The inventory is 23 per cent above what it was in June of 1982. The estimate at that time was that it would be enough for 11.8 months. The movement down to 10.1 is not anywhere near enough to give an impetus to present rate of gains in housing.

It does not take much to be aware that current prices plus mortgage rates will keep many people out of the housing market for quite some time--except in their dreams.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast is not changed. The increases recorded in the second quarter were anticipated here. No straight-line projection is called for based on the 73 per cent leap in sales for the middle part of June. Even industry analysts acknowledged that the jump was misleading as mid-June of last year was very depressed due to the price hikes and the ending of promotions of that time.

The forecast here is roughly in line with that of Ward's Automotive News for the third quarter of this year. KEDI projects 1.62 million cars will be made. Ward's is just slightly higher with their forecast of 1.68 million.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	8.8	9.0	8.8	10.0
Domestic	mil.	5.8	6.0	6.4	6.5	6.8	6.5	12.1
Imported	mil.	2.2	2.4	2.4	2.3	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.3	1.4	1.5	1.4	-26.3
Factory shipments	mil.	5.0	6.0	6.5	6.7	6.8	6.5	30.0
Light-duty truck sales	mil.	2.1	2.1	2.2	2.0	2.1	2.1	0.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.8	9.1	9.0	9.4	9.5	9.2	4.5
Domestic	mil.	6.5	6.8	6.8	7.1	7.1	6.9	6.2
Imported	mil.	2.3	2.3	2.2	2.3	2.4	2.3	0.0
Dealers inventories**	mil.	1.4	1.6	1.7	1.6	1.5	1.6	14.3
Factory shipments**	mil.	6.5	6.9	6.8	7.0	7.2	7.0	7.7
Light-duty truck sales	mil.	2.1	2.0	2.2	2.1	2.2	2.2	4.8

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	9.2	9.3	9.5	9.3	9.7	9.5	3.3
Domestic	mil.	6.9	7.0	7.1	7.0	7.2	7.1	2.9
Imported	mil.	2.3	2.3	2.4	2.3	2.5	2.4	4.3
Dealers inventories**	mil.	1.6	1.7	1.7	1.6	1.6	1.6	0.0
Factory shipments**	mil.	7.0	7.2	7.1	7.1	7.4	7.3	4.3
Light-duty truck sales	mil.	2.2	2.2	2.3	2.3	2.2	2.3	4.5

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS

(Table 1.50 on page 17)

President Reagan's view is that tax increases would harm rather than help recovery. KEDI agrees. This Institute maintains its position that the time for tax increases is in fiscal 1985 and not in 1984. By then the recovery will be solidly under way. It has to be kept in mind that average state taxes are going up 8.7 per cent this year, and the percentage gain next year will be about the same. The 10 per cent July 1 income tax cut has already been absorbed to a large extent by the increases in taxes at the state level. (What one level of government giveth, the other taketh away.) Also, higher social security taxes are involved. The bottom line: there is no net gain for the average wallet.

The KEDI forecast of the fiscal 1984 deficit is now $172 billion WITHOUT the proposed $12 billion in tax hikes approved by Senate and House negotiators and with 10 per cent more in defense spending. The White House is not pleased with the budget plan that still has to go before both Houses. It has $14 billion more in spending for domestic programs than the President requested for fiscal 1984.

The Treasury has been projecting the deficit for fiscal 1984 at 190.2 billion.

1.60 INCOME

(Table 1.60 on page 19)

There is a fractional decrease in the forecast of personal income and related aggregates as can be seen here.

KEDI Forecast of Percentage Change in 1983 over 1984

	June '83 issue	July '83 issue
Personal Income	+6.1	+5.9
Personal Disposable Income	+6.8	+6.5

The projection of average weekly earnings and corporate profits are similarly adjusted. The forecast of personal saving remains low.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	 2	 3	 4	1983	% (1)
Federal govt.:								
Income taxes	bil.$	300.1	297.7	304.2	294.1	308.5	301.1	.3
Corporate prof. tax accruals	bil.$	47.5	53.4	55.4	57.5	59.1	56.4	18.7
Surplus/deficit	bil.$	-149.3	-174.0	-188.5	-202.5	-182.4	-186.9	7.4
State and local governments:								
Income taxes	bil.$	97.1	103.3	104.0	106.2	108.7	105.6	8.7
Corporate prof. tax accruals	bil.$	10.4	11.7	12.4	13.0	13.5	12.7	22.1
Surplus/deficit	bil.$	32.2	42.3	43.4	44.5	45.7	44.0	36.6
Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Federal govt.:								
Income taxes	bil.$	301.1	311.9	320.8	327.6	337.4	324.4	7.7
Corporate prof. tax accruals	bil.$	56.4	63.1	64.8	68.0	70.0	66.5	17.9
Surplus/deficit	bil.$	-186.9	-175.8	-168.3	-159.6	-148.1	-163.0	-12.8
State and local governments:								
Income taxes	bil.$	105.6	111.6	114.2	116.0	117.3	114.8	8.7
Corporate prof. tax accruals	bil.$	12.7	14.7	15.4	15.9	16.7	15.7	12.4
Surplus/deficit	bil.$	44.0	46.8	48.2	49.2	51.3	48.9	11.1
Indicator	Unit	1984	1985 1	 2	 3	 4	1985	% (1)
Federal govt.:								
Income taxes	bil.$	324.4	343.8	351.2	360.4	370.8	356.5	9.9
Corporate prof. tax accruals	bil.$	66.5	73.4	75.2	77.5	79.2	76.4	14.9
Surplus/deficit	bil.$	-163.0	-115.6	-92.8	-83.1	-70.2	-90.4	-44.5
State and local governments:								
Income taxes	bil.$	114.8	122.6	125.1	128.9	132.3	127.2	10.8
Corporate prof. tax accruals	bil.$	15.7	17.2	17.3	17.6	18.4	17.6	12.8
Surplus/deficit	bil.$	48.9	52.2	54.1	54.6	55.0	54.0	10.4

*Historical data (1) % change over previous year

INCOME

This Institute calculates a decline of 4.3 per cent this year as compared to last year. That is in line with the drop in May. The adjusted annual rate of personal savings went down to $121.3 billion from a level of $133.4 in April. That meant savings were at 5.3 per cent of after-tax income whereas they averaged 6.5 per cent last year.

Mr. Ortner of the Commerce Department and Mr. Chimerine of Chase Econometrics brightly pointed out that it may have been anticipation of the July tax cut and extra dollars in the pay checks that led people to save less and to spend more in May. KEDI does not agree. State and local taxes are going up. People are saving less because they have to pay more on taxes. (In the near future, the government break-up of the nation's largest phone company will lead to unfortunate hikes in the phone bills of a substantial portion of the public. Again, that means less available for saving. Gas and electric hikes also proceed.)

The mid-year tax cut is seen here as leading to a smaller increase in savings as compared to the result of the cut last year. At that time savings were boosted by $8 billion. The gain this year is seen as $6.5 billion.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The forecast of the expansion of M1 for this year over last year is increased somewhat to 6.8 from 6.5 per cent. KEDI shares the view that M1 is no longer a highly reliable policy guide. The measure has been diluted by changes in banking regulations. M1 is no longer just funds ready for spending as it includes funds that are being saved and invested.

However, the 15 per cent May increase in M1 clearly indicates that growth has been excessive. It does need to be restricted. This Institute agrees with Mr. Feldstein that it should not be allowed to continue to expand at recent rates.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2569.9	2648.2	2696.1	2739.3	2798.6	2720.6	5.9
Personal disposable income	bil.$	2172.8	2247.2	2287.9	2339.0	2381.4	2313.9	6.5
Compensation of employees	bil.$	1853.9	1908.1	1946.8	1968.8	2026.3	1962.5	5.8
Corporate after tax profits	bil.$	117.7	112.8	120.6	129.5	141.3	126.1	7.1
Personal saving	bil.$	143.2	133.3	135.3	141.3	140.7	137.6	-3.9
Average weekly earnings	$	330.1	342.3	250.7	356.2	362.0	352.8	6.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2720.6	2862.8	2944.5	3038.1	3108.3	2988.4	9.8
Personal disposable income	bil.$	2313.9	2439.3	2509.5	2594.5	2653.6	2549.2	10.2
Compensation of employees	bil.$	1962.5	2073.6	2120.9	2172.8	2223.4	2147.7	9.4
Corporate after tax profits	bil.$	126.1	144.0	147.1	149.8	152.5	148.4	17.7
Personal saving	bil.$	137.6	146.6	152.5	163.1	161.2	155.9	13.3
Average weekly earnings	$	352.8	369.7	375.2	380.1	386.6	377.9	7.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	2988.4	3162.5	3222.6	3294.3	3354.3	3258.4	9.0
Personal disposable income	bil.$	2549.2	2696.1	2746.3	2805.0	2851.2	2774.7	8.8
Compensation of employees	bil.$	2147.7	2254.0	2337.2	2391.2	2504.2	2371.7	10.4
Corporate after tax profits	bil.$	148.4	158.2	163.7	167.0	169.3	164.3	10.7
Personal saving	bil.$	155.9	160.4	161.2	159.4	156.6	159.4	2.2
Average weekly earnings	$	377.9	392.2	399.1	404.7	411.5	401.9	7.0

*Historical data (1) % change over previous year

MONEY AND CREDIT

KEDI has been forecasting for two years that there would be tightening of monetary and credit policy in the second half of this year. Confirmation is found in statements by bankers and other economists alike. For example, in late June, it was reported that the chief economist at the Bank of America in San Francisco predicted short-term rates would rise temporarily. Recovery strength may overstimulate the economy and light inflationary fires without action by the Fed. Maury Harris of Paine Weber also noted that recent drops in M1 need to continue (The Wall Street Journal, June 27, 1983.)

There are no essential changes in the projection of M2, loans, consumer installment credit, and other aggregates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 22)

Again, the forecast that has been maintained here for two years is being confirmed. Interest rates will go up in the latter part of this year. That is already starting to happen. As was noted in the section here on housing, mortgage rates have edged up to 13 per cent. In early June the rate on home loans backed by the U.S. went up from 11.5 to 12 per cent after 16 months of decreases.

The yields on short-term Treasury securities went up to an average of 9.09 per cent in late June. Six-month bills averaged 9.14 per cent. The yield on 6-month CD's went up to 9.39.

KEDI projects that the prime rate will go up to 11.8 per cent by year's end. As can be seen in Table 1.80 KEDI projects the prime rate will average 11.2 in the third quarter up from 10.5 in the second quarter. The conventional mortgage rate is forecast at an average of 12.3 in the third quarter and 12.6 during the last three months of this year.

The forecast of the stock market remains the same with the Dow-Jones Industrials average being seen as having reached its peak in the 1250 range. No significant ups or downs are foreseen in 1983-1984 period.

TABLE 1.10 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Currency and demand deposits, M1	bil.$	475.4	486.4	511.2	516.7	520.3	508.7	7.0
Time deposits, adjusted, M2	bil.$	1918.2	2031.0	2087.8	2172.9	2209.4	2125.3	10.8
Consumer instal. credit	bil.$	343.4	345.5	351.8	359.6	368.4	368.4	7.3
Commerc.& indus. loans at banks	bil.$	394.6	405.8	408.2	414.0	418.9	418.9	6.2
Large denomination time dep.	bil.$	326.6	323.8	330.9	339.3	344.9	334.9	2.6
Mortgages at S & L Assns.	bil.$	484.3	490.6	509.7	516.2	526.2	526.2	8.7

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Currency and demand deposits, M1	bil.$	508.7	527.9	534.8	547.2	559.1	542.3	6.6
Time deposits, adjusted, M2	bil.$	2125.3	2242.6	2289.3	2337.8	2416.5	2321.6	9.2
Consumer instal. credit	bil.$	368.4	372.3	378.3	389.6	398.7	398.7	8.2
Commerc.& indus. loans at banks	bil.$	418.9	421.7	429.5	440.3	450.6	450.6	7.6
Large denomination time dep.	bil.$	334.9	348.4	354.6	362.8	373.6	359.9	7.6
Mortgages at S & L Assns.	bil.$	526.2	533.2	547.4	559.0	569.1	569.1	8.2

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Currency and demand deposits, M1	bil.$	542.3	565.9	577.4	586.3	597.1	581.7	7.3
Time deposits, adjusted, M2	bil.$	2321.6	2466.1	2542.4	2627.0	2718.2	2588.4	11.5
Consumer instal. credit	bil.$	398.7	408.3	414.0	421.5	428.7	428.7	7.5
Commerc.& indus. loans at banks	bil.$	450.6	459.2	464.3	472.1	480.6	480.6	6.7
Large denomination time dep.	bil $	359.9	381.2	388.0	396.9	407.8	393.5	9.3
Mortgages at S & L Assns.	bil.$	569.1	576.7	585.4	594.3	600.1	600.1	5.4

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	10.20	8.07	8.14	9.02	9.47	8.68	-15.0
Prime rate	%	14.86	10.82	10.50	10.68	11.34	10.84	-27.1
Conventional mortgages rate	%	15.57	13.11	12.28	12.46	12.53	12.60	-19.1
Aaa corporate bonds rate	%	13.78	11.81	11.42	11.58	11.98	11.70	-15.1
20 years Govt. bonds yield	%	12.70	10.89	10.94	11.15	11.46	11.11	-12.5
Standard & Poor's 500 avg.	1941-43=100	119.75	145.26	142.75	141.07	138.02	137.24	10.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.68	9.12	8.93	8.26	8.72	8.76	.9
Prime rate	%	10.84	10.82	10.63	10.51	11.02	10.75	.8
Conventional mortgages rate	%	12.60	12.32	12.14	11.87	11.92	12.06	-4.3
Aaa corporate bonds rate	%	11.70	11.76	11.62	11.43	12.02	11.71	.0
20 years Govt. bonds yield	%	11.11	11.54	11.80	12.05	12.13	11.88	6.9
Standard & Poor's 500 avg.	1941-43=100	137.24	138.48	136.51	140.73	137.26	138.25	7.4

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.76	8.94	9.35	9.64	9.20	9.28	6.6
Prime rate	%	10.75	11.27	11.47	11.63	11.85	11.56	7.5
Conventional mortgages rate	%	12.06	11.84	11.78	11.84	11.95	11.85	-1.7
Aaa corporate bonds rate	%	11.71	12.08	11.90	11.91	11.27	11.79	.7
20 years Govt. bonds yield	%	11.88	12.70	12.81	12.97	13.14	12.95	8.7
Standard & Poor's 500 avg.	1941-43=100	138.25	133.54	134.72	131.84	129.75	132.46	-4.2

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Personal Disposable Income for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.5, May 1983, p.8, (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982). The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Disposable Income, bil. $)

Actual figure: 2172.7

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
Georgia State	11/81	2214.0	15	+1.9
Harris Trust and Savings Bank	11/11/81	2183.1	17	+.5
Metropolitan Life Insurance Company	12/1/81	2284.8	21	+5.2
Standard & Poor's Corporation	12/10/81	2237.4	24	+3.0
Fidelity Bank	12/18/81	2225.6	26	+2.4
KEDI	1/1/82	2139.0	28	-1.6
Morgan Guaranty	1/7/82	2213.7	30	+1.9

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

8/11/83 U 2635-1 b

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

Kent Student Center
Kent / Ohio 44242 / U.S.A.

Vol. 9, No.2, August 1, 1983

KEDI ECONOMIC SURVEY

AUGUST 1, 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 088300864
KEDI August 1, 1983

© Kent Economic and Development Institute

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE August 1, 1983

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 1
1.03 ASSUMPTIONS 3

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 3
1.20 PRICES AND NOMINAL GNP
    1.21 PRICES 7
    1.22 NOMINAL GNP 9
1.30 EMPLOYMENT AND LABOR 11
1.41 HOUSING 13
1.42 AUTOMOBILES 15
1.50 BUDGETS 17
1.60 INCOME 19
1.70 MONEY AND CREDIT 21
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 23

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 25

4.00 HISTORICAL DATA SOURCES 27

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 4
1.11 SELECTED INDICATORS OF REAL GROWTH 6
1.12 REAL GNP 8
1.21 PRICES 10
1.22 NOMINAL GNP 12
1.30 EMPLOYMENT AND LABOR 14
1.41 HOUSING 16
1.42 AUTOMOBILES 18
1.50 BUDGETS 20
1.60 INCOME 22
1.70 MONEY AND CREDIT 24
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 26
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 27
3.00 HISTORICAL DATA SOURCES 28

This forecast uses the July, 1983, U.S. Department of Commerce first estimates of 1983:2 National Income and Product data, and the 1982 benchmark revision data. Also used is the July 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Second quarter growth will be followed by a strong third quarter and some slowing in the last part of the year. Some action by the Fed is needed to make sure the economy does not overheat. REAL GROWTH The news was almost all good with sales, industrial output, operating rates in factories, durable orders, car sales, and factory shipments showing respectable gains. PRICES The change in the CPI forecast is still 3.-3.5 percent. If the economy takes off too quickly, the fires of inflation may be rekindled. It is assumed here that Fed action will prevent it. EMPLOYMENT The rate edged down again. The forecast is not changed from the 9.3 percent average seen in the last quarter of this year. HOUSING KEDI has projected that the high rates of housing starts earlier this year could not be maintained. The June rate was down from the May level. AUTOS The forecast is the same with total sales this year seen close to 8.8 million--a 10 percent gain over 1982. U.S. made autos will represent a growing share. BUDGETS The federal deficit forecast is slightly lowered. INCOME Of concern is the drastic drop in savings as income edges ahead. MONEY AND CREDIT The key here is action by the Fed. It needs to be more decisive. M1 growth is seen as being more curbed before the year is out. INTEREST RATES, YIELDS, AND SECURITIES PRICES Rates are starting to move ahead as has been forecast here for two years. Moderate increases will not stifle the recovery. No significant ups or downs of the stock market are foreseen in the rest of this year.

1.02 OVERVIEW

Growth in the second quarter of this year was reported at 8.7 percent, seasonally adjusted annual rate. That increase from the first to the second quarter was the strongest in two years.

The economy is recovering more rapidly than the majority of forecasters, including KEDI, anticipated. A strong performance

OVERVIEW

is also expected in the third quarter with some slowdown toward the end of the year.

Calculation show that such growth is TOO ROBUST AND TOO FAST. Rapid hikes may lead to falls. If the trend continued (and it is assumed here it won't) excess cars and houses would be built for instance. Within about one and a half years, the achievements of lower interest rates and inflation that were costly to reach would be essentially wiped out and the economy would be in the doldrums again. With unemployment moving slowly down, there will not be enough expansion of the market to absorb the autos and homes that continued rapid expansion would bring.

Credit demand would go up as those that could manage to but a new home or car sought financing. That would lead to higher interest rates. The next step would be some crumbling of growth, dealer lots full of unsold cars, and streets with empty new homes or bare foundations. Slow, steady growth provides time for a stronger foundation ,and it would not be handicapped be the slow change in joblessness.

The Federal Reserve has to take action to tighten the money supply. Recently, the Fed changed the upper target for M1 in an upward direction. That does not indicate the policy will be sufficiently restrictive. Monetary and credit policies need some tightening. July surges in consumer credit indicate that the way to a "Jimmy Carter" boom may not be too distant. By that is meant, prime rate moving up toward high double digits and inflation going back into high rates. Just a few years ago, the prime rate was around 20 per cent and inflation was about 11 percent. That should not be repeated.

This Institute has been predicting for two years that the Federal Reserve would begin more restrictive policies in the latter part of this year. That is what is needed--especially considering the rapid growth in the second quarter. Boom and bust will be in the future without action by the Fed.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; in 1986, to $32 per barrel; and in 1987, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In the second half of 1983 some increases in interest rates, and in 1984-1985 stabilizing are axpected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1984 and 1984 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China in these years. U.S. record crops are expected in 1985-1986.

6. Average rates of growth in 1983-1986 in tha major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are assumed.

The August 1983 KEDI forecast is highlighted on page 4.

1.10 REAL GROWTH

(Tables 1.10 and 1.11 on pages 6 and 8)

The good news abounds. Actually, there is a bit too much of it. It is not expected here that the second quarter rate of growth

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1485.4	1528.3	1715.7	1648.1
Index of industrial production	1967=100	138.6	146.2	184.8	191.8
Capacity utilization	%	71.7	74.5	82.1	80.1
Unemployment rate	%	9.72	9.87	7.24	7.56
Private housing starts	mil.	1.061	1.599	1.695	1.314
Car sales	mil.	8.0	8.8	9.8	9.0
Implicit GNP price deflator	1972=100	206.9	216.5	250.5	263.8
Consumer price index	1967=100	288.6	297.6	342.0	360.1
Producer price index*	1967=100	280.6	286.3	342.6	363.5
Federal deficit	bil.$	-147.8	-192.1	-99.6	-84.2
Personal income	bil.$	2587.6	2756.4	3446.9	3653.7
Prime rate	%	14.86	10.85	11.82	11.93
Mortgage rate	%	15.57	12.80	13.14	13.42
Currency plus demand deposits	bil.$	475.4	510.3	628.4	666.7
Commercial and industrial loans	bil.$	393.2	414.9	459.8	471.8

* Finished goods

REAL GROWTH

will continue, but if it did, the economy would be overheated.

1. Retail Sales For the fourth concecutive month, such sales were up. June sales were 0.7 percent higher. In June, consumer installment debt was up by 9.25 percent, annual rate. If the rapid rate for June had continued, credit demand or depleted saving would have lead to some rapid fall. KEDI agrees with Robert Ortner of the Commerce Department that the June rate of gain in retail sales was quite nice. Such rates would not hurt the recovery whereas continuation of rate increases such as 3 percent or more would create overheating and lead to possible shortages which would put more pressure on prices and interest rates. Some analysts are looking to shortages of color TVs, audio equipment, and video tape recorders by the end of summer.

2. Operating Rates The factories, mines, and utilities were operating at a seasonally adjusted 74.5 percent of capacity in June. That was the best rate of the last six months.

3. Industrial Output The Index of Industrial Production recorded another 1.1 percent increase in June. That was the same as the May gain. The Index has been going up for seven months.

4. Durable Goods Orders for durables rose by 5.5 percent in June. They were up 1.6 percent in May. The June increase included a hefty gain in military orders. Orders for nondefense capital goods increased 4.6 percent in June. New orders by manufacturers edged up to $169.6 billion in May from the April level of $166.3, according to Commerce Department figures released in the second week of July.

5. Machine Tool Orders Such orders moved ahead by 15 percent in June from the year-earlier total which was quite depressed.

6. Factory Shipments In May these shipments continued their upward move that started late last year.

7. Housing New housing starts were well ahead from a year ago, but were down a bit between May and June. The reader is referred to Section 1.41.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally
adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1485.4	1490.1	1521.4	1541.3	1560.1	1528.3	2.9
Index of industrial product.	1967=100	138.6	138.5	144.3	148.9	153.2	146.2	5.5
Unemployment rate	%	9.72	10.34	10.10	9.69	9.35	9.87	1.5
Capacity utilization rate	%	71.7	70.7	73.8	75.6	77.8	74.5	4.8
Private housing starts	mil. units	1.061	1.649	1.684	1.603	1.416	1.599	50.7
Car sales	mil. units	8.0	8.4	8.8	8.8	9.0	8.8	10.0

Indicator	Unit	1983			1984		1984	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1528.3	1571.9	1586.9	1602.2	1621.1	1595.5	4.4
Index of industrial product.	1967=100	146.2	157.3	160.7	164.7	167.3	162.6	11.2
Unemployment rate	%	9.87	9.09	8.95	8.64	8.21	8.72	-11.4
Capacity utilization rate	%	74.5	79.2	80.4	81.5	82.3	80.1	7.5
Private housing starts	mil. units	1.599	1.462	1.801	1.815	1.592	1.668	4.3
Car sales	mil. units	8.8	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984			1985		1985	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1595.5	1623.2	1636.7	1650.9	1663.0	1643.4	3.0
Index of industrial product.	1967=100	162.6	170.0	172.5	173.4	173.6	172.4	6.0
Unemployment rate	%	8.72	8.11	7.93	7.89	7.94	7.87	-8.6
Capacity utilization rate	%	80.1	82.1	82.0	80.3	79.3	80.9	1.0
Private housing starts	mil. units	1.668	1.496	1.658	1.566	1.300	1.505	-9.8
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

REAL GROWTH

8. Autos Recent surges in car sales should not lead those in the industry to get overly optimistic and drastically push up production plans. (See Secion 1.42.)

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 10)

In June the CPI went up a modest 0.2 percent. KEDI agrees that the monthly changes will be higher during the rest of the year. In general, economists expect moderate inflation this year and 4-5 percent in 1984 and 1985. KEDI and the Administration are in rough agreement with changes in the CPI forecast here at 3.2 percent for this year and 4.4 percent for 1984. The Federal Reserve considers rates in the 4-5 percent range as too high. Such rates were not acceptable in the early 70's and lead to imposing wage and price controls.

Still, such rates are "low" in contrast to rates of a few years ago. There are four main reasons to expect such low rates:

1. Energy prices will face continuous downward pressure in the near future.

2. The strong dollar will continue. It will hold down the cost of imported goods. One way of looking at the dollars standing may seen frivolous but is actually a fairly good indicator. It may be called the burger barometer. The dollar value of a MacDonalds' Big Mac, small fries, and a small Coke based on late July exchange rates was at $3.82 in Paris, France as compared to $3.39 in New York, $2.52 in London, and $3.23 in Zurich. Over in Tokyo, it was $2.62. If the currencies were to be made equal using the "Burger" index, the British pound, for example, would have to be revalued upward by 25.7 percent and the French franc devauled 11.3 percent. (The New York Times, Section 3, July 3, 1983, page 1.)

3. Wage gains will continue to be moderate. In the late 70's, 10-12 percent increases in wages were the norm. Now, gains of around 5 percent are common and probably will be for the next few years.

1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Gross national product	bil.$	1485.4	1490.1	1521.4	1541.3	1560.1	1528.3	2.9
Personal cons. expenditures	bil.$	970.2	976.3	1010.5	1020.6	1029.4	1009.2	4.0
Gross private dom. investment	bil.$	194.5	196.7	208.5	221.6	233.2	215.0	10.0
Net exports	bil.$	29.4	24.6	10.2	4.4	1.3	10.1	-65.6
Government purchases:								
Federal	bil.$	116.4	117.9	118.2	118.8	119.3	118.6	1.9
State and local	bil.$	174.6	174.6	174.0	175.9	176.9	175.4	.3

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Gross national product	bil.$	1528.3	1571.9	1586.9	1602.2	1621.1	1595.5	4.4
Personal cons. expenditures	bil.$	1009.2	1039.2	1050.1	1059.3	1068.2	1054.2	4.5
Gross private dom. investment	bil.$	215.0	238.8	243.5	248.0	252.8	245.8	14.3
Net exports	bil.$	10.1	-2.3	-5.7	-6.1	-3.2	-4.3	-
Government purchases:								
Federal	bil.$	118.6	119.9	121.8	122.7	124.1	122.1	3.0
State and local	bil.$	175.4	176.3	177.2	178.3	179.2	177.8	1.4

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Gross national product	bil.$	1595.5	1623.2	1636.7	1650.9	1643.0	1643.4	3.0
Personal cons. expenditures	bil.$	1054.2	1063.7	1072.1	1080.1	1087.2	1075.8	2.0
Gross private dom. investment	bil.$	245.8	256.2	257.9	259.4	261.3	258.7	5.2
Net exports	bil.$	-4.3	-2.1	-1.1	1.3	1.5	-.4	-
Government purchases:								
Federal	bil.$	122.1	125.0	125.9	126.9	128.3	126.5	3.6
State and local	bil.$	177.8	180.4	181.9	183.2	184.7	182.7	2.8

*Historical data. (1) % change over previous year

PRICES

4. Unemployment will fall slowly. Because of this, there will not be excessive upward pressure on wages.

HOWEVER, a recovery that fires up too early and with too much fuel could reverse these trends. Some indications that this might happen are as follows:

5. Some efforts to renegotiate contracts have started. The Chrysler situation with talk of demands for $2.00 an hour more in pay is an illustration. Concessions made in recession times need to be balanced when profits return, but the adjustment must be moderately paced and in proportion.

6. Some prices keep on increasing. For instance, medical costs were up 0.5 percent in June and 0.4 percent in May.

Despite lower prices for food, producer prices were up 0.5 percent in June. Most important is the fact that the prices of raw materials have been going up. They leaped ahead by 1.5 percent in June and the rate of gain in May was the same. Increases in raw material prices can filter up to prices of finished goods.

KEDI does nor agree with Lawrence Chimerine of Chase Econometrics that the June price increase did not reflect renewed inflationary pressure but an adjustment in energy prices. This Institute does agree with Jason Benderly of Prudential and others that keep in mind inflation pressure is never gone completely. It can come back at any time. KEDI assumes the Fed will take appropriate action during the rest of this year to keep gains modest.

1.22 NOMINAL GNP

(Table 1.22 on page 12)

The forecast of the nominal value of GNP and components has been slightly changed due to the July 20, 1983 Department of Commerce benchmark revision of historical data series.

As compared with the previous forecast the main difference is in forecast data for Net Exports. Now, KEDI anticipates a less favorable relationship between exports and imports for the

1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	288.6	292.5	296.2	299.3	302.2	297.6	3.1
Producer price index,n.s.a.**	1967= 100	280.6	283.4	284.9	287.5	289.2	286.3	2.0
Price deflators:								
GNP	1972= 100	206.9	212.8	215.2	217.7	220.4	216.5	4.6
Personal cons. expenditures	1972= 100	205.3	209.0	212.9	214.6	216.5	213.3	3.9
Gross private dom.investment	1972= 100	213.1	212.9	216.5	225.7	231.8	221.7	4.0
Federal purchases	1972= 100	221.9	230.0	232.5	233.1	234.6	232.6	4.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	297.6	305.7	309.7	312.7	315.4	310.9	4.5
Producer price index,n.s.a.**	1967= 100	286.3	294.6	297.8	303.0	308.9	301.1	5.2
Price deflators:								
GNP	1972= 100	216.5	221.6	224.8	225.9	232.2	226.4	4.4
Personal cons. expenditures	1972= 100	213.3	218.5	220.7	223.2	225.4	222.0	4.1
Gross private dom.investment	1972= 100	221.7	226.2	231.9	235.8	240.2	233.5	5.3
Federal purchases	1972= 100	232.6	236.6	239.9	243.1	246.8	241.6	3.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	310.9	317.9	322.0	327.0	333.4	325.1	4.6
Producer price index,n.s.a.**	1967= 100	301.1	314.4	318.2	323.3	327.4	320.8	6.5
Price deflators:								
GNP	1972= 100	226.4	234.3	237.3	239.0	240.3	237.7	5.1
Personal cons. expenditures	1972= 100	222.0	228.1	231.4	233.6	234.2	231.8	4.4
Gross private dom.investment	1972= 100	233.5	242.5	244.7	245.2	246.5	244.7	4.8
Federal purchases	1972= 100	241.6	247.5	248.7	250.1	252.3	249.7	3.4

*Historical data (1) % change over previous year **Finished goods

NOMINAL GNP

rest of this year and in 1984 mainly due to the strength of dollar and increased competition on international markets. In 1984 KEDI anticipates hefty increases in the Gross Private Domestic Investment component especially in the Nonresidential Structures and the Change in Inventories items--the projection shows a 20 percent increase compared with the 7.2 percent growth of nominal GNP.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 14)

The forecast is not changed. KEDI maintains that the jobless rate will move down at a gradual pace. This Institute is more optimistic than Chase Econometrics or the Administration as can be seen here for the fourth quarters of this year and the next year.

Unemployment Rate
(in %, fourth quarters)

	Administration	Chase	KEDI
1983:4	9.6	9.5	9.3
1984:4	8.6	8.5	8.2

The unemployment rate continued to edge down at a slow pace in June when the rate reached 10.0 percent. It was at 10.1 in May. It is a good sign that the jobless rate showed a positive move in the face of a sharp increase in the work force.

Total employment was up by 1.2 million to 100,786,000. The number of unemployed declined by 46,000 to 11,146,000.

The jobless rate will remain on the high side and be slow to decline for a number of reasons. First, discouraged workers begin to move back into being counted as unemployed as the economy picks up. That is, thousands of jobless people gain new get-up-and-go when they hear, see, and read of specific instances of growth and expansion. Secondly, changing technology has reduced the need for factory labor jobs. Many of the laid-off workers in basic industries may never get their old jobs back. Retraining

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	3073.0	3171.5	3273.7	3355.3	3437.7	3309.8	7.7
Personal cons. expenditures	bil.$	1991.9	2069.4	2151.3	2190.2	2287.7	2159.9	8.4
Gross private dom.investment	bil.$	414.5	404.1	451.5	500.2	540.6	474.3	14.4
Net exports	bil.$	17.4	-20.5	-12.7	-28.7	-34.1	-13.7	-
Government. purchases:								
Federal	bil.$	258.7	273.5	274.8	276.9	279.9	276.4	6.8
State and local	bil.$	390.5	404.0	408.5	416.7	422.6	413.1	5.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3309.8	3483.1	3567.5	3661.3	3764.6	3619.1	9.3
Personal cons. expenditures	bil.$	2159.9	2270.6	2317.6	2364.4	2407.7	2340.1	8.3
Gross private dom.investment	bil.$	474.3	540.2	564.7	584.8	619.2	577.2	21.7
Net exports	bil.$	-13.7	-38.9	-42.6	-28.7	-21.4	-32.9	-
Government purchases:								
Federal	bil.$	276.4	283.7	292.2	298.3	306.3	295.1	6.8
State and local	bil.$	413.1	427.5	435.6	442.5	452.8	439.6	6.4

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3619.1	3802.8	3884.3	3945.0	3996.5	3907.2	8.0
Personal cons. expenditures	bil.$	2340.1	2426.3	2480.8	2523.1	2546.2	2494.1	6.6
Gross private dom.investment	bil.$	577.2	621.3	631.1	636.0	644.1	633.1	9.7
Net exports	bil.$	-32.9	-12.1	-5.6	-3.2	3.4	-4.4	-
Government purchases:								
Federal	bil.$	295.1	309.4	313.1	317.4	323.7	315.9	7.0
State and local	bil.$	439.6	457.9	464.9	477.7	479.1	468.4	6.6

*Historical data (1) % change over previous year

is only a partial solution that does not realistically help the older worker much. That leads to another point which is the changing distribution pattern. In this post-industrial society, there is a surplus of the not-so-young. We move more and more to a service oriented economy with computers taking on some of the services. Joblessness will be harder to shake. For these reasons, it appears that an unemployment rate of 6-7 percent will be accepted as "normal" for the next decade at least. It is not seen here as getting down to normal in the next few years. The rate is forecast at close to 7.8 percent for 1985 while the number with jobs is seen as going up by roughly 6 million between 1983 and 1985.

1.41 HOUSING

(Table 1.41 on page 16)

The projection is maintained. KEDI continues to assume that the high housing starts rate of the first months of this year cannot be sustained. Confirmation of this is seen in the drop in the rate of starts between May and June. The June rate was down 2.9 percent, seasonally adjusted at an annual rate of 1.747 million. Looking at the very depressed June of 1982 does show a leap of 92 percent. Those in housing are quite aware that high interest rates dampen recovery in housing. The decline between May and June was more severe when looking at single-family units. They were down by 7.1 percent. Building permits issued rose 6.7 percent and were 88.9 percent above June of 1982.

Other economists are beginning to express views that have been maintained here. The president of the Mortgage Bankers Association acknowledged that the second half of this year will not likely be as good as the first due to rising interest rates. Michael Sumichrast pointed to a dropoff in activity by early in the fourth quarter. Harry Pride of the National Association of Home Builders commented on this as possibly being the shortest housing recovery since after WWII as it started in October of last year and could end in late summer. (Record-Courier, UPI, July 22, 1983, page 14.)

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	110.5	111.1	112.4	113.8	112.0	1.6
Employment	mil.	99.5	99.1	100.0	101.5	103.2	100.9	1.4
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	96.1	95.7	96.6	98.1	99.8	97.5	1.5
Unemployment rate	%	9.72	10.34	10.10	9.69	9.35	9.87	1.5

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Population	mil.	232.5	234.5	235.1	236.0	236.9	235.7	1.4
Civilian labor force	mil.	112.0	113.1	114.2	115.1	116.2	114.7	2.4
Employment	mil.	100.9	102.8	104.0	105.2	106.7	104.7	3.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	97.5	99.4	100.6	101.8	103.3	101.3	3.9
Unemployment rate	%	9.87	9.09	8.95	8.64	8.21	8.72	-11.4

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Population	mil.	235.7	237.5	238.1	239.1	240.1	238.7	1.3
Civilian labor force	mil.	114.7	117.7	119.3	121.6	123.2	120.5	5.1
Employment	mil.	104.7	108.2	109.8	112.0	113.4	110.9	5.9
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Non agricult.	mil.	101.3	104.8	106.4	108.6	110.0	107.5	6.1
Unemployment rate	%	8.72	8.11	7.93	7.89	7.94	7.97	-8.6

*Historical data (1) % change over previous year

HOUSING

The recent increase in mortgage rates will lead to some retreating in housing start expansion and already has caused a leveling off that has been acknowledged by Commerce Secretary M. Baldrige. M. Sumichrast of the NAHB pointed out that the interest rate hike added about $50 to the monthly payments of a $65,000 house mortgage. That additional $50 is more than a drop in the bucket. It likely meant that arounf two million people were taken out of the home buying group as they grapple with the possibly over-strained budgets.

This Institute emphatically does NOT agree with Commerce Secretary Baldrige in his assessment that current interest rates are caused by the size of the federal deficit. It is not true that federal financing demand crowd credit markets and curtail construction recovery. It has been stated here repeatedly that there are adequate sources of financing in other sectors. (The reader is referred to the October, 1982 issue on page 16 for more of this or the May, 1983 issue on page 16.)

KEDI does agree with Treasury Secretary Regan in his blaming the interest rate increase on the money supply expansion over the last two months.

1.42 AUTOMOBILES

(Table 1.42 on page 18)

The forecast is not changed. In mid-July car sales bounded ahead by 38.3 per cent above the low levels of last year for that time period. So far this year, sales of U.S. made cars have improved by 15.8 percent from the same period of last year. That confirms the forecast that has been made here for an increasing share to be domestically produced cars. The outlook shows that the share will continue to gain. In June, imports represented 25.9 percent of all sales, as compared to a 30.0 percent share in June of 1982.

Industry analyst expect domestically produced cars in July to sell at a rate 26.3 percent ahead of the prior July.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.656	1.079	1.099	1.002	.845	1.006	53.4
Multifamily housing starts	mil.	.405	.615	.585	.601	.571	.593	46.4
Mobile home shipments	mil.	.239	.281	.293	.286	.289	.287	20.1
Permits authorized	mil.	1.000	1.464	1.639	1.627	1.514	1.561	56.1
1-family unit** price, new	tho.$	84.0	87.1	91.4	93.5	95.1	91.8	5.4
1-family unit** price,existing	tho.$	80.3	80.5	82.1	83.6	85.4	82.9	3.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.006	.884	1.171	1.174	.973	1.051	4.5
Multifamily housing starts	mil.	.593	.578	.630	.641	.619	.617	4.0
Mobile home shipments	mil.	.287	.272	.281	.283	.279	.279	-2.8
Permits authorized	mil.	1.561	1.324	1.586	1.603	1.537	1.513	-3.1
1-family unit** price, new	mil.	91.8	96.2	97.1	99.0	100.3	98.2	2.1
1-family unit** price,existing	tho.$	82.9	86.6	88.0	89.7	91.2	88.9	2.7

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.051	.910	1.026	.983	.814	.933	-11.2
Multifamily housing starts	mil.	.617	.586	.632	.583	.486	.572	-8.3
Mobile home shipments	mil.	.279	.253	.258	.230	.207	.237	-15.1
Permits authorized	mil.	1.513	1.386	1.107	.951	.876	1.080	-28.6
1-family unit** price, new	tho.$	98.2	101.2	103.1	104.2	105.3	103.5	2.3
1-family unit** price,existing	tho.$	88.9	89.6	91.2	92.4	94.1	91.8	2.5

*Historical data (1) % change over previous year **Not seas. adjusted

AUTOMOBILES

Despite the successes, the outlook should be viewed with some caution. Production plans remain essentially unchanged with third quarter schedules calling for 36 percent more cars produced than in the like period of last year.

The prediction at this Institute of an increase in production and sales of larger autos is also confirmed. There will be more demand for larger cars for two main reasons. First, babies born in the post WWII boom are NOW having their own families. Secondly, gasoline prices are not seen as escalating any more in the near future.

1.50 BUDGETS

(Table 1.50 on page 20)

The recent revision by the OBM of the federal deficit for fiscal 1984 starting October 1, 1983 is close to KEDI's forecast. (The reader is referred to the KEDI Economic Survey, July 1983 issue, p. 16.)

Projections of Fiscal 1984 Deficit

OBM	$175 billion
KEDI	$172 billion

This Institute is not as optimistic as Treasury Secretary Regan in calculation the impact of a faster-than-expected recovery. He expects tax receipts to expand by $95 billion by 1988 and hopes it will go toward deficit reduction. That would mean an average of about $19 billion less annually in projected deficits.

Calculations here show that such savings would be much more modest. Even modest savings will only be possible if the recovery is ROBUST and continues for several years. KEDI does not expect the recovery to be energetic for several years. A slowdown in 1985 and again in 1987-88 is anticipated. Given these assumptions, the estimate here for savings if growth is faster than expected, for the next five fiscal years, is $20 billion total. As compared to Regan's $95 billion, KEDI's figure is more modest and it is more

TABLE 1.42 AUTOMOBILES
(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	8.8	9.0	8.8	10.0
Domestic	mil.	5.8	6.0	6.6	6.6	6.8	6.5	12.0
Imported	mil.	2.2	2.4	2.2	2.2	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.2	1.1	1.3	1.2	-26.8
Factory shipments	mil.	5.0	6.0	6.7	6.6	6.9	6.6	32.0
Light-duty truck sales	mil.	2.1	1.9	2.4	2.3	2.1	2.2	4.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.8	9.1	9.0	9.4	9.5	9.2	4.5
Domestic	mil.	6.5	6.5	6.8	6.8	7.1	7.1	9.2
Imported	mil.	2.3	2.6	2.2	2.6	2.4	2.1	-8.7
Dealers inventories**	mil.	1.2	1.4	1.3	1.3	1.4	1.4	16.7
Factory shipments**	mil.	6.6	6.7	6.8	6.8	7.2	6.9	4.5
Light-duty truck sales	mil.	2.2	2.0	2.3	2.2	2.1	2.2	1.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	9.2	9.3	9.5	9.3	9.7	9.5	3.3
Domestic	mil.	7.1	7.0	7.2	7.2	7.3	7.3	2.8
Imported	mil.	2.1	2.3	2.3	2.1	2.4	2.2	4.8
Dealers inventories**	mil.	1.4	1.5	1.4	1.5	1.6	1.5	7.1
Factory shipments**	mil.	6.9	7.1	7.0	7.3	7.5	7.2	7.2
Light-duty truck sales	mil.	2.2	2.0	2.3	2.0	1.9	2.1	5.3

*Historical data (1) % change over previous year **Seas. not adjusted

likely that it would be used in spending rather than deficit reduction. Again, the figures are hypothetical. KEDI does not anticipate growth much beyond 3 percent this year and 4.5 percent in 1984 and is only marginally revising its estimates.

For state and local budgets, there will be persistent problems for this and in the following years. Difficult as it may be, substantial tax hikes are going to occur.

1.60 INCOME

(Table 1.60 on page 22)

The forecast data for Personal Income, Personal Disposable Income, Personal Savings, and components have been raised mainly due to the Department of Commerce which has upwardly revised the 1982 estimates.

Personal Income was up a moderate 0.5 percent in June. It had gone up 1.1 percent in May. The gains have been at the expense of saving which skidded to 3.9 percent of after-tax income in May. That is the lowest rate EVER recorded since such statistics started to be kept 24 years ago!

Estimates of second quarter Personal Saving show a shocking decline.

Personal Saving (in billions of $)

1982 year average	125.4
1983 first quarter	121.7 (annual rate)
1983 second quarter	89.4 (annual rate)

The drop in the second quarter as compared to the first quarter is 36 percent. It indicates that the surge in consumer spending came out of savings.

The July tax cut will only partially and temporarily offset this discouraging number. State and local tax increases will shortly negate most of the tax cut. It is not foreseen here that there will be any definite improvement in the savings rate. Certainly, it won't soon return to the traditional 5 percent rate.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	304.7	297.7	303.9	293.5	308.6	300.9	-1.2
Corporate prof. tax accruals	bil.$	46.5	48.6	49.3	52.8	55.9	51.7	11.2
Surplus/deficit	bil.$	-147.8	-183.3	-196.9	-204.9	-183.1	-192.1	-30.6
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.3	110.4	113.1	109.1	12.0
Corporate prof. tax accruals	bil.$	12.7	12.9	13.8	14.6	15.2	14.1	11.0
Surplus/deficit	bil.$	31.3	40.4	42.5	43.7	44.6	42.8	5.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	300.9	312.1	321.4	328.3	338.7	325.1	8.0
Corporate prof. tax accruals	bil.$	51.7	58.3	61.4	63.1	65.8	62.2	20.3
Surplus/deficit	bil.$	-192.1	-174.2	-167.3	-160.7	-156.9	-164.8	-14.2
State and local governments:								
Income taxes	bil.$	109.2	115.2	117.3	119.4	122.1	118.5	9.6
Corporate prof. tax accruals	bil.$	14.1	16.7	18.3	19.1	20.1	18.6	13.2
Surplus/deficit	bil.$	42.8	45.2	47.7	47.6	50.2	47.7	11.4

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	325.1	344.1	350.1	358.1	367.2	354.9	9.2
Corporate prof. tax accruals	bil.$	62.2	68.3	70.2	72.3	73.8	71.2	14.4
Surplus/deficit	bil.$	-164.8	-131.7	-108.6	-101.4	-98.7	-110.1	-33.2
State and local governments:								
Income taxes	bil.$	118.5	124.5	127.2	130.8	134.9	129.4	9.2
Corporate prof. tax accruals	bil.$	18.6	22.3	23.4	24.8	25.6	24.0	29.0
Surplus/deficit	bil.$	47.7	52.1	53.5	54.6	55.2	53.9	13.0

*Historical data (1) % change over previous year

INCOME

The forecast of average weekly earnings and corporate profits is not changed.

1.70 MONEY AND CREDIT

(Table 1.70 on page 24)

The forecast here remains essentially the same with only fractional upward adjustments. The Federal Reserve will attempt to hold money supply growth to 5-9 percent for the rest of the year. Previously, the target range was 4-8 percent. The growth ranges for M2 and M3 were not changed from the 7-10 percent target range.

The rapid growth in the money supply has amounted to an annual rate of 14 percent so far this year. That has caused worries about renewed inflation.

With the new targets, Paul Volcker announced the growth will be measured from M1's second-quarter average instead of the fourth quarter of last year. That change means that M1 is about $3 billion above the new "monitoring" target whereas using the last quarter of 1982 shows a jump of $16 billion. This base change for comparison does not alter the fact that M1 has gone up well above targets.

Apparently, the Fed have taken a middle ground in not curbing the money supply and allowng moderate increases. KEDI considers the efforts too mild and anticipates that further tightening will take place at the next Open Market Committee's meeting. Leif H. Olsen, chairman of Citibank's economic policy committee pointed to their forecast showing the Fed's will finally start to slow money supply growth. KEDI agrees. (The Wall Street Journal, July 12, 1983, p.1.)

Warning signals of potential troubles for next year have started to appear. Four factors are involved: the alarming decline in personal saving, the surge in consumer credit, the second quarter mortgage credit growth, and gains in crude material prices. All of these may rekindle inflation and lead to much harsher measures.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Personal income	bil.$	2578.6	2657.7	2716.0	2795.6	2856.2	2756.4	6.9
Personal disposable income	bil.$	2176.5	2255.9	2303.8	2391.7	2434.5	2159.9	8.3
Compensation of employees	bil.$	1865.7	1923.7	1969.9	1993.4	2057.4	1986.1	6.5
Corporate after tax profits	bil.$	115.1	108.2	118.1	128.6	140.9	124.0	7.7
Personal saving	bil.$	125.4	121.7	89.4	137.2	140.1	122.1	-2.6
Average weekly earnings	$	330.1	342.3	351.1	356.9	363.0	353.3	7.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2756.4	2906.8	2974.0	3041.9	3102.1	3006.2	9.1
Personal disposable income	bil.$	2159.9	2479.5	2535.3	2594.3	2641.3	2562.6	9.2
Compensation of employees	bil.$	1986.1	2106.5	2139.4	2178.9	2244.5	2167.3	9.5
Corporate after tax profits	bil.$	124.0	142.3	146.1	148.7	150.4	146.9	18.5
Personal saving	bil.$	122.1	142.1	150.3	160.2	161.3	153.5	26.7
Average weekly earnings	$	353.3	370.4	376.2	382.4	388.5	379.4	7.4

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Personal income	bil.$	3006.2	3130.2	3196.3	3250.1	3285.0	3215.4	7.0
Personal disposable income	bil.$	2562.6	2661.6	2719.0	2761.2	2782.7	2731.2	6.6
Compensation of employees	bil.$	2167.3	2274.5	2305.6	2344.1	2364.2	2322.1	7.1
Corporate after tax profits	bil.$	146.9	153.4	157.6	162.4	163.7	159.3	8.4
Personal saving	bil.$	153.5	158.7	160.3	158.9	154.6	158.1	4.8
Average weekly earnings	$	379.4	391.2	394.3	400.1	405.2	397.7	4.8

*Historical data (1) % change over previous year

MONEY AND CREDIT

Calculations show that a more decisive restrictive policy in the latter part of this year will NOT derail the recovery. It will survive and proceed on more solid ground.

Forecast data here for monetary and credit aggregates are based on the assumption that there will be a more restrictive policy at the Federal Reserve. As compared to the last forecast, there are very slight changes in an upward direction.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 26)

As has been forecast here for over a year, interest rates are going up and will be close to firm during the rest of the year. There is a wide range of opinions about interest rates in the remainder of this year. W.V. Sullivan, Jr. of Dean Witter Reynolds anticipates that banks soon will raise the prime lending rate to 11 percent from 10.5. KEDI agrees.

For a change, this Institute agrees with Henry Kaufmann of Salomon Brothers in his assessment that interest rates will likely move up a bit and the recovery will generate gradually higher credit demands to support the growth.

The view of H. C. Nathan of Wells Fargo that interest rates should start declining in August is not shared here.

Irvin L. Kellner of Manufacturers Hanover Trust looks toward easier credit and growth in M1 below the lower target limit. He sees that as encouraging the Fed to ease up and leading to a federal funds rate dropping to around 8 percent by the end of the year.

Others forecast such rates as being in the 7 percent area. Both are viewed by KEDI as off the mark.

In general, interest rates will be going UP NOT DOWN.

This Institute anticipates that the Fed will pursue the policy of higher interest rates this year. That will help minimize the possible need for more substantial restraint in 1984.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	475.4	490.3	512.1	517.3	521.4	510.3	7.3
Time deposits, adjusted,M2	bil.$	1918.2	2043.6	2096.3	2180.5	2219.6	2135.0	11.3
Consumer instal. credit	bil.$	343.4	342.6	350.7	357.1	368.4	368.8	7.4
Commerc.& indus. loans at banks	bil.$	393.2	397.8	401.3	408.7	414.9	414.9	5.5
Large denomination time dep.	bil.$	319.6	301.6	304.7	307.2	310.5	306.0	-4.3
Mortgages at S & L Assns.	bil.$	482.4	484.1	503.8	510.9	517.3	517.3	7.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	510.3	528.9	536.1	550.3	564.1	544.9	6.8
Time deposits, adjusted, M2	bil.$	2135.0	2253.7	2304.7	2349.6	2425.7	2358.2	10.5
Consumer instal. credit	bil.$	368.8	370.1	377.2	384.5	393.1	393.1	6.6
Commerc.& indus. loans at banks	bil.$	414.9	417.3	421.3	424.6	430.2	430.2	3.7
Large denomination time dep.	bil.$	306.0	321.4	314.8	316.7	317.5	315.4	3.1
Mortgages at S & L Assns.	bil.$	517.3	521.3	532.6	541.1	556.3	556.3	7.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	544.9	569.3	573.1	592.4	603.7	584.6	7.3
Time deposits, adjusted,M2	bil.$	2358.2	2478.3	2556.7	2642.3	2734.1	2602.9	10.4
Consumer instal. credit	bil.$	393.1	405.2	410.4	415.4	420.2	420.2	6.9
Commerc.& indus. loans at banks	bil.$	430.2	431.3	435.3	436.1	438.7	438.7	2.0
Large denomination time dep.	bil $	315.4	321.6	327.5	324.3	319.8	323.3	2.5
Mortgages at S & L Assns.	bil.$	556.3	564.1	568.2	571.6	573.4	573.4	3.1

*Historical data (1) % change over previous year

INTEREST RATES, YIELDS, AND SECURITIES PRICES

Calculations show that a 1-1.5 percent increase in short-term rates and 0.5 percent in long-term rates will have some restraining influence on recovery, but it will not cause it to come to a halt. Also, the stock market would survive such short-term gains in interest rates without substantial downward movements.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Government Purchases of Goods and Services for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.5, May 1983, p.8, (U.S. Department of Commerce, Washington, D.C., monthly.) Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982.) The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Government Purchases of Goods and Services, bil.$)

Actual Figure: 647.4

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
U.S. Trust Company, N.Y.	12/81	640.0	9	-1.2
Calvin C. Myers, The Merchants National Bank of Aurora	12/4/81	638.0	9	-1.4
Walter D. Fackler, University of Chicago	12/9/81	625.0	11	-4.5
United Business Service	12/14/81	641.0	11	-1.0
U.S. News and World Report	12/28/81	661.0	13	+2.1
Georgia State	11/81	637.2	15	-.1
Harris Trust and Savings Bank	11/11/81	637.2	17	-1.6
UCLA	12/81	626.7	20	-3.2
Metropolitan Life Insurance Company	12/1/81	641.8	21	-.9
Standard & Poor's	12/10/81	634.5	24	-2.0
Manufacturers Hanover Trust	12/11/81	630.3	25	-2.6
Fidelity Bank	12/18/81	630.4	26	-2.6
KEDI	1/1/82	647.0	28	.0
Morgan Guaranty	1/7/82	634.5	30	-2.0

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Treasury bills (3 mo) yield	%	10.20	8.07	8.13	9.43	9.64	8.82	-13.5
Prime rate	%	14.86	10.82	10.50	10.69	11.38	10.85	-27.0
Conventional mortgages rate	%	15.57	13.11	12.29	12.87	12.93	12.80	-17.8
Aaa corporate bonds rate	%	13.78	11.81	11.44	11.62	12.04	11.73	-18.5
20 years Govt. bonds yield	%	12.70	10.89	10.96	11.36	11.63	11.21	-11.7
Standard & Poor's 500 avg.	1941-43=100	119.75	145.26	142.77	141.02	138.94	142.00	18.6

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	8.82	9.51	9.29	9.14	8.93	9.22	4.5
Prime rate	%	10.85	11.06	10.97	10.87	11.56	11.12	2.5
Conventional mortgages rate	%	12.80	13.04	12.89	12.76	12.93	12.91	.9
Aaa corporate bonds rate	%	11.73	11.83	11.80	11.57	11.89	11.77	.3
20 years Govt. bonds yield	%	11.21	11.76	11.83	12.14	12.19	11.98	6.9
Standard & Poor's 500 avg.	1941-43=100	142.00	140.24	144.37	142.11	139.86	141.65	-2.5

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Treasury bills (3 mo) yield	%	9.92	8.98	9.37	9.85	9.76	9.49	2.9
Prime rate	%	11.12	11.35	11.02	11.29	11.15	11.20	.7
Conventional mortgages rate	%	12.91	12.61	11.87	12.95	12.48	12.47	-3.3
Aaa corporate bonds rate	%	11.77	12.16	11.36	11.82	11.39	11.68	-.8
20 years Govt. bonds yield	%	11.98	12.47	11.83	11.94	11.37	11.90	.0
Standard & Poor's 500 avg.	1941-43=100	141.65	138.54	140.28	137.13	134.54	137.62	-2.8

*Historical data (1) % change over previous year

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.00 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product	SCB, Table 1.2
	Personal consumpt. expend.	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Government purchases of goods and services:	
	Federal	SCB, Table 1.2
	State and local	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

9/19/83

U 2635-1 b

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

Kent Student Center
Kent / Ohio 44242 / U.S.A.

Vol. 9, No.3, September 1, 1983

KEDI ECONOMIC SURVEY

SEPTEMBER 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 098300874
KEDI September 1, 1983

© Kent Economic and Development Institute

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE September 1, 1983

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 1
1.03 ASSUMPTIONS 4

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 5

1.20 PRICES AND NOMINAL GNP

  1.21 PRICES 8
  1.22 NOMINAL GNP 10
1.30 EMPLOYMENT AND LABOR 10
1.41 HOUSING 12
1.42 AUTOMOBILES 14
1.50 BUDGETS 16
1.60 INCOME 18
1.70 MONEY AND CREDIT 20
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 22

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 24

4.00. HISTORICAL DATA SOURCES 28

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 3
1.11 SELECTED INDICATORS OF REAL GROWTH 7
1.12 REAL GNP 9
1.21 PRICES 11
1.22 NOMINAL GNP 13
1.30 EMPLOYMENT AND LABOR 15
1.41 HOUSING 17
1.42 AUTOMOBILES 19
1.50 BUDGETS 21
1.60 INCOME 23
1.70 MONEY AND CREDIT 25
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 27
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 24
3.00 HISTORICAL DATA SOURCES 28

This forecast uses the August, 1983, U.S. Department of Commerce second estimates of 1983:2 National Income and Product data, and the 1982 benchmark revision data. Also used is the July 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Recent action by the Fed had been expected here for a long time. It will help slow growth to a pace that will last a few years. Federal deficits will remain high and will not influence interest rates. The amount of red ink will not bring recovery to a halt. REAL GROWTH The decline in housing starts, lackluster retail sales, and the downward move of durable orders are positive, corrective moves to slow growth from the breakneck pace of the second quarter. A real plus was the gain in productivity and in factory operation rate. PRICES Forecast remains the same with KEDI anticipating inflation this year close to 3.2 percent--lower than many. EMPLOYMENT Fourth quarter joblessness is set at 9.26 percent this year and 8.04 next year. HOUSING Recent declines here confirm the trend KEDI has been projecting. Starts will total in the 1.6 million range this year or over 57 percent above last year. Still, that is below normal averages. AUTOS August brought more sales and higher production targets. The forecast of 6.5 million domestic auto sales in 1983 is not changed. BUDGETS The forecast is changed with the calendar year deficits for this year and next being lowered. INCOME The news here was on the good side. Wage gains have not been cancelled by inflation. Corporate profits are on the way up. MONEY AND CREDIT Tightening by the Fed forecast here has become reality. The Fed have "a narrow row to hoe" to curtail excessive growth and encourage moderate growth with low inflation. INTEREST RATES, YIELDS, AND SECURITIES PRICES Interest rates are not seen as gaining much more. Recent hikes will aid in moderating growth. KEDI's forecast of the stock market remains unchanged--strong performance in the rest of 1983 and in 1984.

1.02 OVERVIEW

In the last issue, KEDI cautioned that if torrid growth of the economy were to continue, then the U.S. would find itself in another "Jimmy Carter boom" with high inflation and interest rates. That is not expected by this Institute.

OVERVIEW

Three basic elements are involved in the view at KEDI.

1. It is expected here that the Federal Reserve will continue to be restrictive and will aid in slowing robust growth to a pace that can be sustained.
2. KEDI does not anticipate any dramatic increases in federal taxes.
3. The iconoclastic view that big deficits will neither harm the recovery nor crowd private business out of the market is maintained.

THESE OUTLOOKS HAVE BEEN HELD HERE FOR TWO YEARS. Now other economists are beginning to publically agree with such forecasts. For example, Michael Evans of Evans Economics referred to a collapse that would have taken place if second quarter growth rates would have continued. Newsweek used "Interest rates have risen, but for the time being this may be a good thing." as a subheadline. (Aug.22, 1983, page 46.) There is no doubt at KEDI that it is a good thing. Actual developments are confirming the outlook that has been held here for quite some time: Moderate growth is forecast. As to deficits, there has not been any proof that red ink and interest rates have a direct relationship.

In the second half of 1982, interest rates went down while the deficit went up.

In the first half of 1983, interest rates stabilized and the deficit went up.

In the second part of this year, deficits are seen as holding or edging down a tad, while interest rates move up some and then level.

The most vociferous proponents of the theory that government demand for credit will crowd out the needs of business for financing are NOW becoming silent. If the theory is mentioned at all, it is spoken of as becoming reality some time in the distant future--1985 or 1986 or so.

Interest rates have been going up. KEDI has been predicting for two years that they would increase in the second half of 1983. The Fed action is seen as on the mark here. The rates need to be a bit higher in order to help slow the excessive speed of recovery reached in the second quarter and prevent the economy from running out of steam by accelerating too fast. The second quarter expansion of 9.2 percent was too rapid.

The members of the FED's Open Market Committee stated in mid-August that

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1485.4	1528.6	1715.8	1790.7
Index of industrial production	1967= 100	138.6	146.6	184.9	192.0
Capacity utilization	%	71.7	74.4	81.5	80.9
Unemployment rate	%	9.72	9.77	7.31	7.50
Private housing starts	mil.	1.061	1.599	1.708	1.575
Car sales	mil.	8.0	8.8	9.8	9.4
Implicit GNP price deflator	1972= 100	206.9	216.0	249.7	262.9
Consumer price index	1967= 100	288.6	297.7	342.0	360.2
Producer price index*	1967= 100	280.6	286.3	342.7	363.8
Federal deficit	bil.$	-147.1	-175.0	-98.6	-83.1
Personal income	bil.$	2587.6	2750.0	3450.3	3702.2
Prime rate	%	14.86	10.81	11.73	11.36
Mortgage rate	%	15.57	12.88	13.02	12.95
Currency plus demand deposits	bil.$	475.4	511.0	622.1	666.3
Commercial and industrial loans	bil.$	393.2	412.1	456.2	479.9

* Finished goods

the Federal Reserve would pursue tighter monetary policy during the rest of this year. That is tied to interest rates moving ahead as the law of demand and supply enter.

There is the positive side cropping up already. As monetary growth was curbed by the Fed, it helped to slow the booming pace of housing.

The Administration is right in finally being concerned about the economy growing at a rate that is excessive. They are right to be concerned about the prospects of renewed inflation and sharply higher interest rates that could lead to the collapse of growth. Boom and bust is not needed. There is a fine line to walk to keep interest rates high enough for a while to sustain modest growth but not so high as to lead recovery to a fall.

The forecast is not changed. Moderate growth will continue into 1984. Interest rates will go up slightly, but be fairly stable in the first half of the next year and edge down a bit in the second half. The policy of the Federal Reserve has to remain restrictive for the rest of this year and be on alert in 1984. There should be no increases in taxes next year. Then everything will be fine in terms of a nicely paced recovery.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; in 1986, to $32 per barrel; and in 1987, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In the second half of 1983 some increases in interest rates, and in 1984-1985 stabilizing is expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

ASSUMPTIONS

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are anticipated.

The September 1983 KEDI forecast is highlighted on page 3.

1.10 REAL GROWTH

(Tables 1.10 and 1.11 on pages 7 and 9)

As KEDI forecast, signs of cooling of the robust growth in the first part of this year have been appearing. In order for growth to last it needs to have its strength more evenly used.

Due to the unexpected excessive growth in the second quarter with GNP leaping ahead 9.2 percent, the following developments are seen here in a positive light. That is, slight declines or very small gains are seen as corrective.

1. The annual pace of housing starts edged down in July from the June level. (See section 1.41, Housing.) Starts are forecast here as becoming stable.

2. While construction spending moved up by 6.5 billion to an adjusted rate of $259.7 in June, the value of new construction slowed down significantly in July. That ended the surge of May and June that broke records.

3. Despite the July first tax cut, retail sales were about the same in July as they were in June. Preliminary estimates show a .03 decline. The August retail sales will be strong but mostly due to the auto sales while the other sales will increase not as significantly.

4. New orders for durable goods were down in July. That followed four months of gains. They reached an adjusted total of $87.60 billion.

5. Steel orders moved up just a bit. The gain is seen as seasonal. Production of steel was off in the third week of August from the prior week. The industry was operating at 53.7 percent capacity.

6. Orders for new manufactured goods were off 1.7 percent in July as opposed to the gain in June of 5.1 percent. The July downturn was attributed to

REAL GROWTH

a reversal in orders for big-ticket durables. Orders for nondefense capital goods were off 11.3 percent from June.

KEDI agrees with Robert Wescott from Wharton in the assessment that the fall in orders certainly points to the Fed's tightening as beginning to bring results.

The first six points are seen as ALL TO THE GOOD. It was necessary that some adjustment take place so the growth could proceed at a slower AND longer lasting rate. The declines have not meant that the recovery was in jeopardy. It has meant that the economy has moved to the correct path of a moderate pace of growth. That will become more widespread and it will avoid getting inflation embers on fire.

There are many signs that growth is solidly based. Declines that are really adjustments have not meant the start of a new downturn. Positive developments are outlined here.

1. The factory operating rate was up to 75.8 percent of capacity in July. That represents the highest rate in 20 months.

2. Factory shipments were up in June to an adjusted rate of $172.52 billion. The July and August figures are expected to show a stabilization or marginal increases. After increasing steadily since late last year, an adjustment was needed.

3. Both new and unfilled orders gained in June and July.

4. Business productivity showed a 4.3 percent seasonally adjusted gain in the second quarter. Such increases are one element in keeping inflation from taking off again.

5. Inventories were up by 0.4 percent in July. That was the largest gain since late in 1981.

6. Industrial production rose a seasonally adjusted 1.8 percent in July.

All in all, the developments are seen as healthy. There has been some pulling of the reins so the course could be completed. The moderation of the pace points to a longer period of growth.

Allan Greenspan pointed to growth of close to a 9 percent annual rate after adjustment for inflation in this third quarter as production increases

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Gross national product, 1972$	bil. 1972 $	1485.4	1490.1	1523.4	1540.8	1560.1	1528.6	2.9
Index of industrial product.	1967=100	138.6	138.5	144.0	150.3	153.6	146.6	5.8
Unemployment rate	%	9.7	10.3	10.1	9.4	9.3	9.8	.5
Capacity utilization rate	%	71.1	70.7	73.8	75.5	77.6	74.4	4.6
Private housing starts	mil. units	1.061	1.694	1.684	1.604	1.414	1.599	50.7
Car sales	mil. units	8.0	8.4	8.8	8.9	9.0	8.8	10.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product, 1972$	bil. 1972 $	1528.6	1567.3	1584.7	1606.8	1632.8	1597.9	4.5
Index of industrial product.	1967=100	146.6	157.3	160.5	164.5	167.1	162.4	10.7
Unemployment rate	%	9.8	9.0	8.8	8.2	8.0	8.5	-12.7
Capacity utilization rate	%	74.4	78.8	79.8	80.6	81.6	80.2	7.8
Private housing starts	mil. units	1.599	1.465	1.827	1.849	1.603	1.686	5.4
Car sales	mil. units	8.8	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Gross national product, 1972$	bil. 1972 $	1597.9	1636.7	1646.8	1660.2	1672.1	1654.0	3.7
Index of industrial product.	1967=100	162.4	169.1	171.3	172.8	173.4	171.7	3.7
Unemployment rate	%	8.5	7.9	7.9	7.8	7.9	7.9	-7.6
Capacity utilization rate	%	80.2	81.8	82.0	81.1	80.3	81.3	1.4
Private housing starts	mil. units	1.686	1.400	1.772	1.690	1.353	1.579	-6.3
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

REAL GROWTH

continue for the general purpose of building inventories. In the last quarter of this year, he forecasts growth, inflation adjusted,of less than 5 percent. KEDI forecast shows lower figures--8.4 percent for this quarter and 4.8 per cent for the fourth quarter of this year.

Stephen Roach of Morgan Stanley & Co. cited interest rates as slowing the recovery to growth of 5.9 percent in the last quarter of this year as compared to the last quarter of 1982. In 1984, he anticipates growth of 4.8 percent. Growth next year is expected to be close to 4.5 percent by KEDI.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 11)

The forecast is not changed. Inflation for 1983 will be in the 3.0-3.5 percent range --a very moderate pace, indeed. For 1984, the rate will move up to the 4.5 percent range. KEDI obviously doe not agree with the majority of forecasters that point to inflation of 4 percent this year and 6 percent next year.

Consumer prices went up by a seasonally adjusted 0.4 percent in July or 4.8 percent annually before compounding. That is good news. The forecast for food prices is that they will increase approximately by the same amount as they did in the last year. Meat prices will show lower gains during the rest of this year. In the spring of 1984, they will increase more.

KEDI does not agree with Susan Lakatos of the forecasting firm of Washington Analysis Corp. She refers to the drought as contributing to a consumer price hike of about 4 percent this year. In 1984, she expects inflation in the 5-6 percent range. Such gains are seen here as just too high.

Producer prices rose by 0.1 percent in July. In the first seven months of this year, such prices were off by 0.7 percent. The modest July gain is good news.

HOWEVER, the prices of crude materials excluding energy are shooting up. Steel prices were increased by five leading steelmakers an average 7 percent for sheet and strip. Due to the drought, grain prices will start to shoot ahead in no time at all. The crude prices moving ahead may help rekindle inflationary pressures, but KEDI does not expect that to be significant. The forecast is maintained.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Gross national product	bil.$	1485.4	1490.1	1523.4	1540.8	1560.1	1528.6	2.9
Personal cons. expenditures	bil.$	970.2	976.3	1009.9	1021.3	1030.4	1009.5	4.1
Gross private dom. investment	bil.$	194.5	196.7	210.6	218.5	230.8	214.2	10.1
Net exports	bil.$	29.4	24.6	11.0	6.8	3.2	11.2	-66.3
Government. purchases:		116.4	117.9	117.6	118.1	118.9	118.1	2.1
Federal State and local	bil.$ bil.$	174.9	174.6	174.3	176.1	176.8	175.5	.3

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product	bil.$	1528.6	1567.3	1584.7	1606.8	1632.8	1597.9	4.5
Personal cons. expenditures	bil.$	1009.5	1041.3	1055.6	1069.3	1084.6	1062.7	5.1
Gross private dom. investment	bil.$	214.2	231.6	236.1	240.4	245.7	238.5	11.3
Net exports	bil.$	11.2	-2.1	-6.2	-4.3	-1.0	-3.4	-
Government purchases:		118.1	120.1	121.9	122.9	124.1	122.3	3.6
Federal State and local	bil.$ bil.$	175.5	176.4	177.3	178.5	179.4	177.9	1.4

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil.$	1597.9	1636.7	1646.8	1660.2	1672.	1654.0	3.7
Personal cons. expenditures	bil.$	1062.7	1086.5	1091.4	1096.8	1102.7	1094.4	3.2
Gross private dom. investment	bil.$	238.5	247.2	249.2	252.5	255.6	251.1	5.3
Net exports	bil.$	-3.4	-2.2	-1.0	1.1	1.2	-.3	-
Government purchases:		122.3	124.9	125.6	126.8	128.4	126.4	3.3
Federal State and local	bil.$ bil.$	177.9	180.3	181.6	183.0	184.2	182.3	2.5

*Historical data. (1) % change over previous year

PRICES

This Institute does not agree with economists that see the crude price gains as a distinct warning that inflation will take off again. KEDI shares the view that do not see the gains as a threat. John H. Ortego of Chase Econometrics noted that such prices are still below their 1981 peak.

Raw material prices are volatile. As Geoffrey Moore of the Center for International Business Cycle Research pointed out, other indexes do not show any threatening gains.

1.22 NOMINAL GNP

(Table 1.22 on page 13)

As compared with the previous forecast the main differences in projected values of GNP and components are the following:

1. Slower growth of Gross Private Domestic Investment during the rest of 1983 and throughout 1984 and 1985 is anticipated mainly due to the upward revision of projections of some interest rates and lower projections of business inventories buildup.
2. More favorable developments in the U.S. foreign trade. KEDI maintains its projection of the international value of dollar--it will remain strong throughout 1983-1985 with negative effect on the U.S. balance of trade. However, the larger than previously anticipated exports of grain and other agriculture products will positively influence the trade relations. As a result, the projection of Net Exports for the rest of 1983 and for 1984-1985 has been slightly increased.
3. Projected data for Personal Consumption Expenditures has been increased due mainly to the upward revision of expected retail sales of nondurable goods and services in 1985.

Changes #1.-#3. do not significantly affect the structures of GNP as projected for 1984-1985.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 15)

The projection remains essentially unchanged. The fourth quarter rate of unemployment for this and the next two years is:

1.21 PRICES

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	288.6	293.1	296.2	299.2	302.3	297.7	3.2
Producer price index,n.s.a.**	1967= 100	280.6	283.7	284.9	287.5	289.2	286.3	2.0
Price deflators:								
GNP	1972= 100	206.9	212.8	214.7	217.2	219.4	216.0	4.4
Personal cons. expenditures	1972= 100	205.3	209.0	212.7	214.3	216.1	213.0	3.8
Gross private dom. investment	1972= 100	213.1	212.9	214.2	224.3	228.7	220.0	3.2
Federal purchases	1972= 100	221.9	230.0	231.9	233.2	234.7	232.5	4.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	297.7	305.7	309.7	312.7	315.4	310.9	4.5
Producer price index,n.s.a.**	1967= 100	286.3	294.6	297.8	303.0	308.9	301.1	5.2
Price deflators:								
GNP	1972= 100	216.0	222.3	224.8	227.5	231.2	226.5	4.9
Personal cons. expenditures	1972= 100	213.0	218.2	220.1	221.8	224.8	221.2	3.8
Gross private dom. investment	1972= 100	220.0	231.3	233.5	235.7	241.4	235.5	7.0
Federal purchases	1972= 100	232.5	236.8	240.2	243.9	247.6	242.1	4.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967= 100	310.9	317.9	322.0	327.0	333.4	325.1	4.6
Producer price index,n.s.a.**	1967= 100	301.1	314.4	318.2	323.3	327.4	320.8	6.5
Price deflators:								
GNP	1972= 100	226.5	234.2	236.9	239.0	240.3	237.6	4.9
Personal cons. expenditures	1972= 100	221.2	227.8	230.9	233.4	235.6	231.9	4.8
Gross private dom. investment	1972= 100	235.5	243.1	244.9	245.3	246.8	245.0	4.0
Federal purchases	1972= 100	242.1	248.1	249.2	251.2	253.7	250.5	3.5

*Historical data (1) % change over previous year **Finished goods

EMPLOYMENT AND LABOR

	Unempl. Rate
1983:4	9.26
1984:4	8.04
1985:4	7.85

It was good news that in July there was a decline of 365,000 in the number without jobs for six months or more. KEDI anticipates that the August unemployment rate will either remain the same as in July or will move further down only marginally, but the number of persons unemployed for six months or longer will decline significantly.

Overall, in July, the unemployment rate moved down to an adjusted 9.5 percent of the labor force from 10.0 percent, and the rate for married men to 6.1 percent from the 6.6 percent in June.

Total employment went up by almost one-half million in July to a seasonally adjusted 101,285,000 total. Since the recession ended late last year, there has been an increase in the number of employed of over 2.1 million. There has been a 2.2 percent gain in the number employed from last November through July.

The Administration has forecast that unemployment rate would average about 9.6 percent in the last quarter of this year. KEDI sees that forecast as just a bit too high.

1.41 HOUSING

(Table 1.41 on page 17)

For the past two months, KEDI has been forecasting a decline in the fast rate of growth of the first quarter. That rate could not be continued. The slight decline in July confirms the forecast.

Construction of new houses was off by 0.6 percent in July. Most important, there was a drop in the annual rate of work on single-family houses to 1 million from the June level of 1.1 million. Between June and July, the drop was 11.9 percent in starts of single-family houses.

KEDI agrees with Robert Scott of Chase Econometrics that the boom is past. The housing industry is settling into a pattern that can still be considered

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	3073.0	3171.5	3270.1	3346.9	3423.6	3303.0	7.5
Personal cons. expenditures	bil.$	1991.9	2069.4	2148.4	2188.6	2226.7	2158.3	8.4
Gross private dom. investment	bil.$	414.5	404.1	451.2	490.1	527.8	468.3	12.9
Net exports	bil.$	17.4	20.5	-12.3	-24.6	-32.7	-12.3	-
Government. purchases:		258.7	273.5	272.7	275.4	279.1	275.2	6.4
Federal	bil.$							
State and local	bil.$	390.5	404.0	409.4	417.4	422.7	413.4	5.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	3303.0	3483.6	3561.9	3655.0	3774.4	3618.8	9.6
Personal cons. expenditures	bil.$	2158.3	2272.1	2323.4	2371.7	2438.2	2351.4	8.9
Gross private dom. investment	bil.$	468.3	535.7	551.3	566.6	593.1	561.7	19.9
Net exports	bil.$	-12.3	-37.2	-41.0	-26.5	-19.3	-31.0	-
Government purchases:		275.2	284.3	292.8	299.8	307.3	296.1	7.6
Federal	bil.$							
State and local	bil.$	413.4	429.7	435.4	443.4	455.1	440.7	6.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	3618.8	3833.1	3901.8	3968.6	4020.0	3930.9	8.6
Personal cons. expenditures	bil.$	2351.4	2475.0	2520.0	2560.0	2578.4	2533.4	7.7
Gross private dom. investment	bil.$	561.7	600.9	610.3	619.4	630.8	615.4	9.6
Net exports	bil.$	-31.0	-11.0	-6.2	-1.6	-4.2	-3.7	-
Government purchases:		296.1	309.9	313.0	318.5	325.8	316.8	7.0
Federal	bil.$							
State and local	bil.$	440.7	458.3	464.7	472.3	480.8	469.0	6.4

*Historical data. (1) % change over previous year

quite in line with recovery.

Demand is clearly going down from the earlier high levels. It will edge down during the rest of the year, but will still be ahead of 1982. Harry Pride of the National Association of Home Builders pointed out quite correctly that "Builders won't build what they can't sell and sales have already started falling as a result of rising interest rates." (Akron Beacon Journal, Aug. 17, 1983, page D1.)

Resales of single-family homes were off by 4.4 percent in July to an annual rate of 2.81 million. Still resales were 47 percent above the year-earlier total. The main reason is the increased mortgage rates. KEDI projects they will remain relatively high. The rate hikes from about 12 percent to 13.5 or 14 percent in July added about $100 more a month to the mortgage on a $77,200 house, for example, even with 20 percent down and a government-backed mortgage.

1.42 AUTOMOBILES

(Table 1.42 on page 19)

There has been good news here. First, in mid-August, indefinite layoffs were at their lowest levels since late 1981. Second, car sales for the August 11-20 period gained 22.4 percent. That was equal to an adjusted yearly rate of 6.6 million units. Although the mid-August rate was down from the July rate, the change was due more to a declining supply of cars in dealers' lots than to any decline in consumer enthusiasm. Sales for the industry in the first 20 days of August were up 31.3 percent.

Production goals for the fourth quarter of this year was increased by major domestic automakers. The target is 61.6 percent above the last quarter of the depressed 1982 year.

The car recovery appears strong when looking at the sad state of the industry in the past few years. Sales in the 6.7 million range forecast frequently, are quite removed from the nine million plus sold in 1978. KEDI still expects domestic car sales to total 6.5 million in 1983, or close to 12 percent ahead of the 1982 total. The forecast for trucks is raised a bit in this issue.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	110.5	111.1	112.4	113.8	112.0	1.6
Employment	mil.	99.5	99.1	100.0	101.9	103.3	101.1	1.6
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	96.1	95.7	96.6	98.5	99.9	97.7	.5
Unemployment rate	%	9.72	10.34	10.10	9.37	9.26	9.77	-5.5

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Population	mil.	232.5	234.5	235.1	236.0	236.9	235.7	1.4
Civilian labor force	mil.	112.0	113.1	114.2	115.1	116.2	114.7	2.4
Employment	mil.	101.1	102.9	104.1	105.7	106.9	104.9	3.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	97.7	99.5	100.7	102.3	103.5	101.5	3.9
Unemployment rate	%	9.77	9.02	8.84	8.21	8.04	8.53	-12.7

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Population	mil.	235.7	237.5	238.1	239.1	240.1	238.7	1.3
Civilian labor force	mil.	114.7	117.7	119.3	121.6	123.2	120.5	5.1
Employment	mil.	104.9	108.4	109.9	112.1	113.5	111.0	5.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	101.5	105.0	106.5	108.7	110.1	107.6	6.0
Unemployment rate	%	8.53	7.94	7.91	7.84	7.85	7.89	-7.6

*Historical data (1) % change over previous year

AUTOMOBILES

As to prices, many potential buyers are driven back by the high costs. Since 1970, typical auto prices have gone up 30-60 percent whereas median family income rose 21 percent to about $23,700. The cheapest car made by General Motors, a four-door Chevette went up by 37 percent to $6,218. A Ford Mustang jumped 50 percent to $9,808. (The Wall Street Journal, August 3, page 1.) It has been estimated that price hikes of the last four years meant about three-fourths of a million people have made do with the old car or brought a used one instead.

1.50 BUDGETS

(Table 1.50 on page 21)

The forecast here is slightly changed. The good news is that the federal deficit projected for calendar years 1983 and 1984 is decreased. For 1985, there is a small increase.

FEDERAL DEFICITS

(Calendar years, bil. $)

KEDI August Forecast		KEDI September Forecast	
1983	-192.1	1983	-175.0
1984	-164.8	1984	-153.1
1985	-110.1	1985	-113.0

Calculations show that gradual declines in the deficit will come mainly from gains in receipts from federal income and corporate taxes. Figures here assume there will not be any significant changes in the existing tax structure. In other words, the deficits will be decreasing without any significant adjustments of tax rates.

It does not appear that the calls of some economists for hiking of taxes is essential in deficit reduction. It must be remembered that other factors such as receipts increasing play a significant role in the debits and credits of our government.

1. Due to the lowering of the inflation rate, there will be smaller gains in budgetary expenditures than had been when inflation was in double digits.

2. Corporate profits will be making significant gains. That automatically

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.656	1.079	1.099	1.001	.846	1.006	53.3
Multifamily housing starts	mil.	.405	.615	.585	.603	.568	.593	46.4
Mobile home shipments	mil.	.239	.281	.293	.284	.287	.286	19.8
Permits authorized	mil.	1.000	1.464	1.639	1.625	1.510	1.560	56.0
1-family unit** price, new	tho.$	84.0	87.1	91.4	93.4	94.6	91.6	9.1
1-family unit** price,existing	tho.$	80.3	80.5	82.1	83.4	85.0	82.8	3.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.006	.889	1.182	1.196	.981	1.062	5.6
Multifamily housing starts	mil.	.593	.576	.645	.653	.622	.624	5.2
Mobile home shipments	mil.	.286	.274	.289	.286	.280	.282	-1.4
Permits authorized	mil.	1.560	1.330	1.592	1.614	1.548	1.512	-2.5
1-family unit** price, new	mil.	91.6	96.8	98.4	99.7	103.8	99.7	8.8
1-family unit** price,existing	tho.$	82.8	85.7	88.3	91.2	94.5	90.0	8.6

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Single-family housing starts	mil.	1.062	.910	1.108	1.064	.826	.977	-8.0
Multifamily housing starts	mil.	.624	.590	.654	.626	.527	.602	-3.6
Mobile home shipments	mil.	.282	.260	.267	.235	.214	.244	-13.5
Permits authorized	mil.	1.521	1.382	1.129	1.014	1.058	1.146	-17.1
1-family unit** price, new	tho.$	99.7	105.6	107.2	109.1	110.3	108.1	8.4
1-family unit** price,existing	tho.$	90.0	96.2	98.1	99.0	100.1	98.4	9.3

*Historical data (1) % change over previous year **Not seas. adjusted

creates higher corporate income tax receipts.

3. Increased employment means that there will be gains in personal income tax receipts--in KEDI's forecast significantly larger than generally anticipated.

There are no essential changes in the forecast of state and local budgets.

1.60 INCOME

(Table 1.60 on page 23)

Mild good news: Personal income was up a bit in July. It rose a modest 0.6 percent. The June gain was 0.5 percent. More important is the result of the July 1 tax cut. That reduced federal personal income taxes by $29 billion, at an annual rate, raising pay that made it to pockets of the employed.

Personal savings gained 5 percent in July. That is the right direction, but it is still low. It is not very good that the yearly average of personal savings was still below the rate of last year. A comparison is given.

PERSONAL SAVINGS

(bil. $)

1982 year average	125.4	
1983 first quarter	121.7	(seasonally adj., annual rate)
1983 second quarter	89.4	(seasonally adj., annual rate)
1983 July 1983	111.5	(seasonally adj., annual rate)

It is also a **healthy** sign that increases in income have not been wiped out by inflation. The median pay rise for the first six months of this year was at an annual rate of 3.9 percent. That is better than the 3.2 percent inflation rate of that period. Hence, there was improvement in spending power. The average one-worker family earned $320 per week in the second quarter. Were both husband and wife worked, the avreage was $517.

The Labor Department reported that 1.2 million workers covered by contracts settled between January and the end of June got pay hikes averaging 2.7 percent over the life of the contracts and 0.9 percent in the first year. KEDI agrees with Robert Ortner of the Commerce Department that modest pay hikes in multi-year contracts help verify that inflation will remain on the moderate side for the next few years.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	 2	 3	 4	1983	% (1)
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	8.9	9.0	8.8	10.0
Domestic	mil.	5.8	6.0	6.6	6.7	6.8	6.5	12.0
Imported	mil.	2.2	2.4	2.2	2.2	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.2	1.1	1.3	1.2	-26.8
Factory shipments	mil.	5.0	6.0	6.7	6.7	6.9	6.6	32.0
Light-duty truck sales	mil.	2.1	1.9	2.4	2.3	2.2	2.2	4.8

Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Passenger cars								
Total sales	mil.	8.8	9.1	9.0	9.4	9.5	9.2	4.5
Domestic	mil.	6.5	6.6	6.8	6.9	7.1	6.9	5.4
Imported	mil.	2.3	2.5	2.2	2.5	2.4	2.3	.0
Dealers inventories**	mil.	1.2	1.4	1.3	1.3	1.4	1.4	16.7
Factory shipments**	mil.	6.6	6.7	6.8	6.8	7.2	6.9	4.5
Light-duty truck sales	mil.	2.2	2.0	2.3	2.2	2.1	2.2	.0

Indicator	Unit	1984	1985 1	 2	 3	 4	1985	% (1)
Passenger cars								
Total sales	mil.	9.2	9.3	9.5	9.3	9.7	9.5	3.3
Domestic	mil.	6.9	7.0	7.2	7.2	7.3	7.3	2.8
Imported	mil.	2.3	2.3	2.3	2.1	2.4	2.2	4.8
Dealers inventories**	mil.	1.4	1.5	1.4	1.5	1.6	1.5	7.1
Factory shipments**	mil.	6.9	7.1	7.0	7.3	7.5	7.2	7.2
Light-duty truck sales	mil.	2.2	2.0	2.3	2.0	1.9	2.1	5.3

*Historical data (1 % change over previous year. **Seas., not adjusted

INCOME

Corporate profits bounced ahead, after taxes, by 14.7 percent in the second quarter. That was the best showing since 1975. KEDI had been projecting healthy gain in corporate profits.

However, the situation is still bad for some industries. Next year, gains will be more widespread. The forecast here for profits by industry in 1984 is given. Overall, the list should bring a smile to many faces. Look at all that good news.

KEDI PROJECTION OF PROFITS
(Percentage increase in 1984 over 1983)

Airlines	29
Aerospace	36
Autos & Equipment	31
Building Materials	22
Chain Stores	36
Chemicals	41
Electrical Equipment-Electronics	18
Forest Products	12
Office Equipment and Computers	14
Petroleum Products	8
Rubber	22
Paper and Products	18
Textiles	21
Railroads	14
Utilities	12
Banks	8

1.70 MONEY AND CREDIT

(Table 1.70 on page 24)

The assumption that there would be tightening by the Fed in the latter part of this year has been held at KEDI for the past two years. It is now reality. That tightening has been increasingly seen as necessary by other economists recently.

In the view of this Institute, the Federal Reserve does not have a lot of room for easing or tightening. The forecast for M1 and M2 show both aggregates will be close to the upper limits during the rest of this year. It appears the reining-in of monetary and credit policy that was begun

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*			1983		1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	304.7	297.7	304.3	292.1	308.7	300.7	-1.3
Corporate prof. tax accruals	bil.$	46.5	48.6	59.0	64.7	68.9	60.3	29.7
Surplus/deficit	bil.$	-147.1	-183.3	-163.7	-180.9	-172.1	-175.0	19.0
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.4	110.5	113.6	109.2	12.1
Corporate prof. tax accruals	bil.$	12.7	12.9	16.0	17.2	18.0	16.0	26.0
Surplus/deficit	bil.$	31.3	40.4	37.5	41.1	42.3	40.3	12.9

Indicator	Unit	1983			1984		1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	300.7	312.5	321.7	328.8	339.5	325.6	8.3
Corporate prof. tax accruals	bil.$	60.3	64.6	68.9	73.6	76.8	71.0	17.7
Surplus/deficit	bil.$	-175.0	-164.0	-159.2	-149.3	-139.7	-153.1	12.5
State and local governments:								
Income taxes	bil.$	109.2	115.9	118.0	120.1	123.4	119.4	9.3
Corporate prof. tax accruals	bil.$	16.0	18.9	19.7	21.5	22.8	20.7	29.4
Surplus/deficit	bil.$	40.3	45.0	47.2	48.5	50.1	47.7	18.4

Indicator	Unit	1984			1985		1985	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	325.6	345.6	352.8	360.3	368.9	356.9	9.6
Corporate prof. tax accruals	bil.$	71.0	78.1	80.1	82.0	83.2	80.1	12.8
Surplus/deficit	bil.$	-153.1	-122.4	-119.7	-111.2	-98.6	-113.0	-26.2
State and local governments:								
Income taxes	bil.$	119.4	125.0	127.8	131.3	136.2	130.1	8.9
Corporate prof. tax accruals	bil.$	20.7	23.0	23.2	23.6	23.9	23.4	13.2
Surplus/deficit	bil.$	47.7	51.1	51.6	52.3	53.1	52.0	9.1

*Historical data (1) % change over previous year

in June and July was sufficient enough to curtail inflationary pressures. Any easing of policies would be a mistake and lead to harder measures in 1984.

It is also true that it would be an error to tighten policy any more. Interest sensitive sectors such as autos, housing, and business capital investment are already slowing. Further restrictions would hurt them and the recovery too much.

For 1984, KEDI forecasts some easing of monetary and credit conditions around the middle of the year. Forecast data show easing will not encourage inflationary tendencies to any worrisome degree at that time. KEDI assumes any easing of monetary and credit policy at that time would also be appropriate to the international economic situation.

The forecast of consumer credit, business loans, and other aggregates has not been changed significantly. Recent development have been confirming forecasts made here. For instance, consumer debt was up by a record 4.41 billion in June, and commercial and industrial loans advanced only marginally. KEDI expects commercial and industrial loans will stabilize for the rest of this year and will be gaining slowly throughout 1984. Mortgage loans will also stabilize and will be increasing more significantly in 1984. To the end of 1984 the amount of mortgage loans outstanding will increase by approximately 7 percent when compared with the expected amounts at the end of this year.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 26)

The forecast is not changed. The recent increases in interest rates have fulfilled the projections made here for quite some time.

KEDI assumes that interest rates are approaching the top. No significant increases will occur during the rest of this year. Some slight declines may take place in December or in January. In general, interest rates will stabilize in the first part of the next year. They will move down a bit in the latter part of 1984.

In the fourth quarter of 1984 the prime rate will be close to 10 percent, the conventional mortgage rate close to 12 percent, and the AAA corporate

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2578.6	2657.7	2715.8	2781.0	2845.3	2750.0	6.6
Personal disposable income	bil.$	2176.5	2255.9	2303.3	2378.4	2423.0	2340.1	7.5
Compensation of employees	bil.$	1865.7	1923.7	1968.8	1990.1	2052.6	1983.8	6.3
Corporate after tax profits	bil.$	115.1	108.2	127.1	135.8	146.9	129.5	12.5
Personal saving	bil.$	125.4	121.7	92.2	126.3	131.5	117.9	-6.0
Average weekly earnings	$	330.1	342.3	351.1	354.2	360.1	351.9	6.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2750.0	2906.4	2978.8	3044.4	3128.9	3014.6	9.7
Personal disposable income	bil.$	2340.1	2478.0	2539.1	2595.5	2666.0	2569.7	9.7
Compensation of employees	bil.$	1983.8	2102.1	2134.3	2175.1	2239.2	2162.7	9.0
Corporate after tax profits	bil.$	129.5	153.2	158.9	164.3	167.5	161.0	24.3
Personal saving	bil.$	117.9	139.7	148.4	156.3	159.8	151.1	28.0
Average weekly earnings	$	351.9	366.3	372.5	379.6	385.2	375.9	7.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	3014.6	3173.9	3231.6	3279.7	3310.4	3248.9	7.7
Personal disposable income	bil.$	2569.7	2703.3	2751.0	2788.1	2805.3	2761.9	7.4
Compensation of employees	bil.$	2162.7	2269.4	2300.2	2338.7	2358.6	2316.7	7.1
Corporate after tax profits	bil.$	161.0	172.3	175.1	178.3	180.5	176.6	9.6
Personal saving	bil.$	151.1	159.4	161.6	157.8	155.3	158.5	4.9
Average weekly earnings	$	375.9	387.8	389.7	395.9	403.4	394.2	4.8

*Historical data (1): % change over previous year bonds rate below 12 percent.

Any ups or downs in interest rates this year or next will not be dramatic. For the whole period the rates will remain at historically high levels. KEDI is not as gloomy as Alan Greenspan. He is an unofficial adviser to President Reagan. He sees the prime rate going up another one or one and one-half points. KEDI does not expect such gains.

The forecast of the stock market is not changed. No significant ups or downs are projected for the rest of this year or 1984. In the last quarter of this year and in the first quarter of 1984 some declines are assumed. In the second half of 1984 the upwards trend will resume.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, State and Local Governments Purchases of Goods and Services for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.5, May 1983, p.8, (U.S. Department of Commerce, Washington, D.C., monthly.) Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982.)

The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(State and Local Purchases of Goods and Services, bil.$)

Actual Figure: 389.4

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
Prudential	11/30/81	385.0	7	-1.1
National Securities and Research Corp.	12/81	387.0	7	-.6

(Continues on page 26)

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	475.4	490.3	512.1	517.1	524.3	511.0	7.5
Time deposits, adjusted, M2	bil.$	1918.2	2043.6	2096.3	2169.8	2204.5	2128.6	10.9
Consumer instal. credit	bil.$	343.4	342.6	350.7	358.2	368.9	368.9	7.4
Commerc.& indus. loans at banks	bil.$	393.2	397.8	401.3	409.5	412.1	412.1	4.8
Large denomination time dep.	bil.$	319.6	301.6	304.7	307.1	312.4	306.5	-4.1
Mortgages at S & L Assns.	bil.$	482.4	484.1	503.8	511.2	517.5	517.5	7.3

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	511.0	530.8	537.2	549.6	561.7	544.8	6.6
Time deposits, adjusted, M2	bil.$	2128.6	2238.6	2290.7	2331.7	2406.5	2316.9	8.8
Consumer instal. credit	bil.$	368.9	370.4	377.9	385.2	394.1	394.1	6.8
Commerc.& indus. loans at banks	bil.$	412.1	415.6	420.7	423.1	429.8	429.8	4.3
Large denomination time dep.	bil.$	306.5	312.8	315.1	317.2	318.6	315.9	3.1
Mortgages at S & L Assns.	bil.$	517.5	512.4	532.7	541.3	556.4	556.4	7.5

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Currency and demand deposits, M1	bil.$	544.3	568.1	573.2	591.4	601.8	583.6	7.1
Time deposits, adjusted, M2	bil.$	2316.9	2452.6	2523.8	2620.7	2712.6	2577.4	11.2
Consumer instal. credit	bil.$	394.1	400.7	404.3	409.8	415.8	415.8	5.5
Commerc.& indus. loans at banks	bil.$	429.8	432.6	434.7	436.9	441.2	441.2	2.7
Large denomination time dep.	bil $	315.9	322.4	328.6	330.5	334.4	329.0	4.1
Mortgages at S & L Assns.	bil.$	556.4	563.1	566.4	570.6	573.2	573.2	3.0

*Historical data (1) % change over previous year

COMPARISONS OF ACCURACY (Table 2.00 Continued)

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
U.S. Trust Company, New York	12/81	384.0	9	-1.4
Calvin C. Myers, The Merchants National Bank of Aurora	12/81	385.0	9	-1.1
Walter D. Fackler, University of Chicago	12/9/81	380.0	11	-2.4
United Business Service	12/14/81	382.0	11	-1.9
Georgia State	11/81	388.0	15	-.4
Harris Trust and Savings Bank	11/12/81	384.3	17	-1.3
UCLA	12/81	377.3	20	-3.1
Metropolitan Life Insurance Company	12/1/81	388.0	21	-.4
Standard & Poor's Corporation	12/10/81	395.0	24	1.4
Manufacturers Hanover Trust	12/11/81	378.5	25	-.5
Fidelity Bank	12/18/81	384.1	26	-1.4
KEDI	1/1/82	391.8	28	.6
Morgan Guaranty Trust Company	1/7/82	382.8	30	-1.7

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	10.20	8.07	8.13	9.41	9.52	8.78	-13.9
Prime rate	%	14.86	10.82	10.50	10.82	11.09	10.81	-27.3
Conventional mortgages rate	%	15.57	13.11	12.29	13.26	12.87	12.88	-17.3
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.18	12.36	11.95	-13.3
20 years Govt. bonds yield	%	12.70	10.89	10.96	11.48	11.57	11.23	-11.6
Standard & Poor's 500 avg.	1941-43=100	119.75	145.26	142.77	141.56	138.72	142.08	18.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	8.78	9.48	9.27	9.04	8.86	9.16	4.4
Prime rate	%	10.81	10.89	10.76	10.16	10.04	10.46	-3.2
Conventional mortgages rate	%	12.88	12.67	12.79	12.45	12.27	12.55	-2.6
Aaa corporate bonds rate	%	11.95	12.49	12.58	12.32	12.11	12.38	3.6
20 years Govt. bonds yield	%	11.23	11.84	12.14	11.92	11.73	11.91	6.0
Standard & Poor's 500 avg.	1941-43=100	142.08	139.54	141.22	144.97	139.61	141.34	-5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	9.16	8.75	8.81	8.86	8.54	8.74	-46
Prime rate	%	10.46	10.02	10.36	10.52	10.13	10.26	-1.9
Conventional mortgages rate	%	12.55	12.10	11.74	11.83	11.95	11.91	-5.1
Aaa corporate bonds rate	%	12.38	12.24	12.67	12.72	12.54	12.54	1.3
20 years Govt. bonds yield	%	11.91	11.98	12.14	12.32	11.88	12.08	1.4
Standard & Poor's 500 avg.	1941-43=100	141.34	138.66	136.42	130.27	128.51	133.47	-5.6

*Historical data (1), % change over previous year

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product	SCB, Table 1.2
	Personal consumpt. expend.	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Government purchases of goods and services:	
	Federal	SCB, Table 1.2
	State and local	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.
	Large denomin. time deposits	FRB, Table 1..
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

10/17/83 U 2635-1 a

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

Kent Student Center
Kent / Ohio 44242 / U.S.A.

Vol. 9, No.4, October 1, 1983

KEDI ECONOMIC SURVEY

OCTOBER 1983 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

Publication No. 108300884
KEDI October 1, 1983

© Kent Economic and Development Institute

CONTENTS

Page

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY 1
1.02 OVERVIEW 1
1.03 ASSUMPTIONS 4

2.00 DETAILED FORECASTS

1.10 REAL GROWTH 5
1.20 PRICES AND NOMINAL GNP
  1.21 PRICES 8
  1.22 NOMINAL GNP 10
1.30 EMPLOYMENT AND LABOR 12
1.41 HOUSING 12
1.42 AUTOMOBILES 14
1.60 INCOME 18
1.70 MONEY AND CREDIT 18
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 20

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 22

4.00 HISTORICAL DATA SOURCES 25

TABLES

1.00 KEDI FORECAST HIGHLIGHTS 2
1.11 SELECTED INDICATORS OF REAL GROWTH 5
1.12 REAL GNP 7
1.21 PRICES 9
1.22 NOMINAL GNP 11
1.30 EMPLOYMENT AND LABOR 13
1.41 HOUSING 15
1.42 AUTOMOBILES 17
1.50 BUDGETS 19
1.60 INCOME 21
1.70 MONEY AND CREDIT 23
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 24
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 22
3.00 HISTORICAL DATA SOURCES 25

This forecast uses the September, 1983, U.S. Department of Commerce third estimates of 1983:2 National Income and Product data, and the 1982 benchmark revision data. Also used is the September 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

KEDI has long held the view recently expressed by the Treasury Secretary that there is no cause-effect link between deficits and interest rates. There are adequate funds available to finance public and private needs without inflation being renewed or the recovery being halted. REAL GROWTH Developments show that growth continues. It is at a pace that can last longer than the over-heated rate of the second quarter. Modest gains in production, new orders, factory operating rate, and housing starts were somewhat balanced by declines in building permits, retail sales, steel production, and factory orders. PRICES The forecast is revised slightly in an upward direction for gains in the CPI in 1984 and 1985. Inflation is seen as being 3.3 percent this year, 4.7 percent in '84, and 4.8 in '85 as compared to the prior year. EMPLOYMENT The jobless rate is still seen as averaging 9.26 percent in the last quarter and edging down next year. HOUSING Starts were up in August but permits were down. The projection is not changed. The "big" gain foreseen for this year still leaves housing below more normal levels. AUTOS The forecast for production and sales is revised upward here: Sales 8.9 percent better than last year, but that is still below the peaks of the late 1970's. BUDGETS Good news here as recovery means increased receipts. Taxes should not be raised until the recovery is solid. INCOME Despite hurricane and strike, personal income edged ahead in August. Even with mild inflation and higher state and local taxes, there will be a bit more money for the average consumer to spend. MONEY AND CREDIT The forecast is maintained. It would be an error to ease credit too soon. INTEREST RATES, YIELDS, AND SECURITIES PRICES Generally high rates will remain with any downward moves being quite small. They will not cripple recovery. The stock market will perform well--especially in the last half of next year.

1.02 OVERVIEW

Treasury Secretary Donald Regan and chief presidential economist Martin S. Feldstein have very different views about the impact of the deficit on

OVERVIEW

interest rates and recovery. KEDI lines up with Regan in this dispute.

Feldstein attributes the interest rate level to the unprecendented amount of the federal deficit. He sees more cuts in government spending and more tax revenues as the solution.

Regan commented that views such as Feldstein's are "the sour wisdom of some defunct or obsolescent economist." (Akron Beacon Journal, Sept. 15, 1983, p. All) The Treasury Secretary does not see a cause-effect link between deficits and interest rates. KEDI has expressed this view many times. Again, there is no direct link between interest rates and government red ink. Large deficits are not as bad as large tax increases. It seems that President Reagan also views high red-ink totals as more tolerable than more taxes.

To repeat, in the latter part of 1982, interest rates went down while the deficit went up. In the first half of the current year, the deficit went up and interest rates stabilized. During the second part of this year, red ink is seen here as moving down a bit while interest rates stabilize.

There is no "outcrowding" effect. Enough funds exist in the economy to meet the financing needs of the government and private business. (See page 2 of the May, 1983, issue.)

KEDI's forecast of growth slowing in the latter part of this year--a needed cooling--is being confirmed by developments outlined in the Real Growth section.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No. 3 has been updated.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; in 1986, to $32 per barrel; and in 1987, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1485.4	1529.6	1721.6	1790.5
Index of industrial production	1967=100	138.6	147.0	184.2	192.6
Capacity utilization	%	71.7	74.9	81.7	81.2
Unemployment rate	%	9.72	9.77	7.31	7.50
Private housing starts	mil.	1.061	1.599	1.708	1.573
Car sales	mil.	8.0	8.9	9.8	9.6
Implicit GNP price deflator	1972=100	206.9	216.0	249.7	263.1
Consumer price index	1967=100	288.6	298.3	344.6	366.7
Producer price index*	1967=100	280.6	286.5	344.3	366.7
Federal deficit	bil.$	-147.1	-175.4	-98.2	-82.4
Personal income	bil.$	2587.6	2751.6	3423.1	3678.4
Prime rate	%	14.86	10.63	11.38	11.14
Mortgage rate	%	15.57	13.12	12.74	12.56
Currency plus demand deposits	bil.$	473.5	508.7	603.4	619.5
Commercial and industrial loans	bil.$	393.2	402.6	438.3	460.4

* Finished goods

ASSUMPTIONS

in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In 1984-1985 stabilizing is expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1984 and 1985 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China. U.S. record crops are expected in 1986-1987.

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are anticipated.

The October 1983 KEDI forecast is highlighted on page 3.

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The developments show that growth has slowed from the rapid pace of the second quarter. Such a move was needed to prevent the economy from overheating and renewing inflationary pressures. Moderate growth that has been forecast here for this year is maintained. The last quarter of 1984 as compared to the final quarter of this year is forecast as showing a 4.6 percent improvement by this Institute. That is fractionally higher than the 4 4 percent consensus forecast by Blue Chip Economic Indicators survey.

The mixed economic news showing the recovery is easing back to a pace that can be maintained for a longer period is outlined here.

1. The survey of buying agents reported a slowing of deliveries from suppliers for the seventh consecutive month. This indicates a larger backlog of orders. Production increases were reported by 44 percent of purchasing managers surveyed--up from 42 percent in July.

TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally
adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	1485.4	1490.1	1525.1	1544.3	1558.7	1529.6	2.9
Index of industrial product.	1967=100	138.6	138.5	144.4	150.9	154.3	147.0	6.1
Unemployment rate	%	9.7	10.3	10.1	9.4	9.2	9.8	.5
Capacity utilization rate	%	71.1	71.2	73.9	76.7	77.8	74.9	5.3
Private housing starts	mil. units	1.061	1.694	1.684	1.604	1.414	1.599	50.7
Car sales	mil. units	8.0	8.4	8.8	9.0	9.1	8.9	11.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	1529.6	1568.1	1585.6	1608.2	1634.3	1559.1	4.5
Index of industrial product.	1967=100	147.0	157.7	161.0	165.0	167.7	162.9	10.8
Unemployment rate	%	9.8	9.0	8.8	8.2	8.0	8.5	-12.7
Capacity utilization rate	%	74.9	78.9	80.6	81.4	81.5	80.6	7.6
Private housing starts	mil. units	1.599	1.465	1.827	1.849	1.603	1.686	5.4
Car sales	mil. units	8.9	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product,1972$	bil. 1972 $	1599.1	1638.8	1649.6	1667.3	1678.5	1658.6	3.7
Index of industrial product.	1967=100	162.9	170.1	171.8	173.9	174.1	172.5	5.9
Unemployment rate	%	8.5	7.9	7.9	7.8	7.9	7.9	-7.6
Capacity utilization rate	%	80.6	81.8	82.1	82.4	81.7	82.0	1.7
Private housing starts	mil. units	1.686	1.400	1.772	1.690	1.353	1.579	-6.3
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

REAL GROWTH

2. Industrial production went up to 150.5 percent of the 1967 average in August, seasonally adjusted. That was a gain of 0.9 percent. It had been gaining at a more rapid pace since February. The level of the August increase is quite adequate even if it was below the 2 percent increase of July and the 1.3 percent gain of May and June. It pointed to a needed slowing of growth.

3. Machine tool orders have followed a zig-zag path by jumping ahead 19 percent in July and dropping 22 percent in August from the July pace. Shipments were about the same in both months. That level was over 50 percent lower than it had been a year earlier.

4. New orders for durable goods rose modestly between July and August. The seasonally adjusted move up of 0.3 percent would have been 3.5 percent if defense orders had been excluded in both months. Orders had dropped between June and July following steady gains since February. August durable orders were 25 percent ahead of the recession low of last October.

5. Inventories also showed a modest rise in July after moving down in June. The July edging forward was reported at 0.2 percent from the adjusted level of the prior month. KEDI agrees that increases in inventories will be moderate in this and the next quarter.

6. Even though major retailers had strong gains in August, overall sales here were down to an adjusted rate that was 1.4 percent lower than in July. The July rate was 0.2 percent below the June pace. Both moves are seen as corrective here in terms of slowing the overall pace of growth to a more moderate and long-lasting one.

7. Steel production had been going up in the March through May period. It moved down some in both June and July. Raw steel production was at 6,921,274 tons in July. However, steel orders showed gains in late August.

8. Factory shipments had been moving ahead since late last year until July when they dropped slightly. The adjusted rate in July was at $173.11 billion.

9. Factory orders were off 1.7 percent in July to an adjusted annual rate of $175.49 billion. They had increased 5.1 percent in June.

1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Gross national product	bil.$	1485.4	1490.1	1525.1	1544.3	1558.7	1529.6	3.0
Personal cons. expenditures	bil.$	970.2	976.3	1010.6	1027.1	1031.6	1011.4	4.2
Gross private dom. investment	bil.$	194.5	196.7	210.2	216.4	225.7	212.3	9.2
Net exports	bil.$	29.4	24.6	12.3	7.3	6.2	12.6	57.1
Government. purchases:								
Federal	bil.$	116.4	117.9	117.6	118.2	118.9	118.2	1.5
State and local	bil.$	174.9	174.6	174.5	175.3	176.3	175.2	.2

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product	bil.$	1529.6	1568.1	1585.6	1608.2	1634.3	1599.1	4.5
Personal cons. expenditures	bil.$	1011.4	1043.9	1053.6	1067.1	1086.1	1062.7	5.0
Gross private dom. investment	bil.$	212.3	228.7	233.1	236.5	241.2	234.9	10.6
Net exports	bil.$	12.6	-1.0	-.3	3.2	3.5	1.4	-88.9
Government purchases:								
Federal	bil.$	118.2	120.1	121.9	122.9	124.1	122.3	3.5
State and local	bil.$	175.2	176.4	177.3	178.5	179.4	177.9	1.5

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Gross national product	bil.$	1599.1	1638.8	1649.6	1667.3	1678.5	1658.6	3.7
Personal cons. expenditures	bil.$	1062.7	1085.6	1091.2	1101.3	1108.1	1097.1	3.2
Gross private dom. investment	bil.$	234.9	245.3	246.7	249.6	251.3	248.2	5.7
Net exports	bil.$	1.4	2.1	3.3	3.5	4.1	3.3	-
Government purchases:								
Federal	bil.$	122.3	125.0	125.6	126.9	129.1	126.7	3.6
State and local	bil.$	177.9	180.8	182.8	184.0	185.9	183.4	3.1

*Historical data (1) % change over previous year

REAL GROWTH

10. The operating rate for factories went up in August to an adjusted 76.7 percent of capacity. The July rate was revised to 76.1 percent.

11. Although housing starts rose in August, the issuance of building permits fell. The reader is referred to Section 1.41 on housing.

In sum, the news has shown both ups and downs with none of the gains being excessive. The moderation anticipated for the third quarter by this Institute can be seen in the developments.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast here for the change in the CPI this year is maintained, but there are fractional increases in the projections for the next two years. The outlook for the PPI is increased by 0.2 percentage points for the change forecast for this year and next year whereas the adjustment in the annual change in the PPI between 1984 and 1985 shows a gain of just 0.1 percentage points over the September forecast.

KEDI Forecast of the Changes in the CPI &
PPI from One Year to the Next
(based on annual averages)

	Last Month	This Month
CPI		
1983/82	+3.2%	+3.3%
1984/83	+4.5%	+4.7%
1985/84	+4.6%	+4.8%
PPI		
1983/82	+2.0%	+2.2%
1984/83	+5.2%	+5.4%
1985/84	+6.5%	+6.6%

1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	288.6	293.1	296.2	300.5	303.4	298.3	3.3
Producer price index,n.s.a.**	1967=100	280.6	283.7	284.9	287.3	289.9	286.5	2.1
Price deflators:								
GNP	1972=100	206.9	212.8	214.5	217.2	219.5	216.0	4.4
Personal cons. expenditures	1972=100	205.3	209.0	212.4	214.3	216.2	213.0	3.8
Gross private dom.investment	1972=100	213.1	212.9	214.1	224.5	228.9	220.1	3.2
Federal purchases	1972=100	221.9	230.0	232.7	233.3	234.9	232.7	4.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	298.3	306.5	311.2	313.9	317.2	312.2	4.6
Producer price index,n.s.a.**	1967=100	286.5	295.3	298.6	304.2	309.8	302.0	5.4
Price deflators:								
GNP	1972=100	216.0	222.3	224.7	227.5	231.3	226.5	5.0
Personal cons. expenditures	1972=100	213.0	218.4	220.5	222.1	225.2	221.6	4.0
Gross private dom.investment	1972=100	220.1	231.3	233.6	235.6	241.4	235.5	7.0
Federal purchases	1972=100	232.7	236.8	240.5	244.1	248.4	242.5	4.2

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Consumer price index,n.s.a.	1967=100	312.2	320.4	324.2	328.4	334.8	327.4	4.8
Producer price index,n.s.a.**	1967=100	302.0	315.8	319.2	324.5	329.6	322.3	6.7
Price deflators:								
GNP	1972=100	226.5	234.3	237.2	239.8	241.1	238.1	5.1
Personal cons. expenditures	1972=100	221.6	227.8	231.0	234.9	236.8	232.6	5.0
Gross private dom.investment	1972=100	235.5	243.1	246.4	248.2	250.9	247.2	5.0
Federal purchases	1972=100	242.5	249.6	253.1	255.7	258.2	254.1	4.8

*Historical data (1) % change over previous year **Finished goods

PRICES

The reasons for the revision by KEDI are attributable to the drought and resulting upward pressures on agricultural prices and food prices and the larger-than-expected rise in capital equipment costs.

Soybean prices jumped ahead by 50 percent between mid-July and mid-September. Corn prices were up about 70 percent between last September and this September.

Consumer prices rose a seasonally adjusted 0.4 percent in August and in July. Between August of 1982 and August of this year, consumer prices were up a modest 2.6 percent. (The July and August gains equal a 4.8 percent annual rate before compounding.) Half of the change in August was attributed to an adjusted hike of 1 percent in transportation costs as gas and auto prices moved ahead in the index.

In August, the Producer Price Index moved ahead by a seasonally adjusted 0.4 percent. The July gain here had been a very modest 0.1 percent. Food prices and capital-equipment costs were the main factors in the forward move of this measure.

KEDI remains relatively optimistic as concerns inflation. Certainly, this Institute is not as gloomy as those pointing to the possibility of inflation of 8 percent in 1984. The Shadow Open Market Committee cites the possibility of 8 percent due to what they view as inconsistent monetary policies here and abroad and contractive trade and debt policies which they feel will lead to slow growth and more inflationary pressures.

The economists surveyed by Blue Chip Economic Indicators now show an average of a 5 percent inflation rate in 1984 over this year. James Solloway, an economist at a New York investment firm, projects inflation of 6-7 percent in 1984 and a rate of up to 9 percent in 1985. (The Wall Street Journal, Sept. 19, 1983, page 1.) Obviously, KEDI does not agree with these high forecasts.

1.22 NOMINAL GNP
(Table 1.22 on page 11)

Forecast for nominal GNP and components for the rest of this year and for 1984-1985 remains essentially unchanged when compared with KEDI's last month's fore-

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Gross national product	bil.$	3073.0	3171.5	3272.0	3354.2	3421.3	3304.8	7.5
Personal cons. expenditures	bil.$	1991.9	2069.4	2147.0	2201.1	2230.3	2162.0	8.5
Gross private dom. investment	bil.$	414.5	404.1	450.1	485.8	516.6	464.2	12.0
Net exports	bil.$	17.4	20.5	-8.3	-28.3	-30.8	-11.8	-
Government. purchases:								
Federal	bil.$	258.7	273.5	273.7	275.8	279.3	275.6	6.5
State and local	bil.$	390.5	404.0	409.7	419.8	425.9	414.9	6.2

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Gross national product	bil.$	3304.8	3525.9	3562.8	3658.7	3780.1	3631.9	9.9
Personal cons. expenditures	bil.$	2162.0	2289.9	2323.2	2370.0	2445.9	2357.3	9.0
Gross private dom. investment	bil.$	464.2	529.0	544.5	556.0	582.3	553.0	19.1
Net exports	bil.$	-11.8	-9.2	-36.3	-14.3	-15.6	-19.0	-
Government purchases:								
Federal	bil.$	275.6	284.4	293.2	300.0	308.3	296.5	7.6
State and local	bil.$	414.9	431.8	438.2	447.0	459.2	444.1	7.0

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Gross national product	bil.$	3631.9	3839.7	3912.9	3998.2	4046.9	3949.4	8.7
Personal cons. expenditures	bil.$	2357.3	2473.0	2520.7	2587.0	2624.0	2551.2	8.2
Gross private dom. investment	bil.$	553.0	574.7	607.9	619.5	630.5	608.2	10.0
Net exports	bil.$	-19.0	-11.0	-6.2	-1.6	-4.2	-3.7	-
Government purchases:								
Federal	bil.$	296.5	312.0	317.9	324.5	333.3	324.2	9.3
State and local	bil.$	444.1	464.7	470.9	478.2	485.7	474.9	6.9

*Historical data (1) % change over previous year

NOMINAL GNP

cast data. The 1984 and 1985 forecast data for GNP have been marginally increased due mainly to the upward revision of data for the Implicit Price Deflator for Personal Consumption Expenditures. Now, the 1984 increase in Personal Consumption Expenditure is seen as being 9.0 percent as compared with the September forecast of 8.9 percent. The 1984 gain in Nominal GNP is forecast now as being 9.9 percent as compared with the September projection of 9.6 percent. For 1985: This forecast shows 8.7 percent increase in GNP, and 8.2 percent increase in Personal Consumption Expenditures, compared with respective 8.6 and 7.7 percent increases in the September forecast. Both changes are due to the upward revision of forecast data for prices in 1985.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

As had been anticipated here, the August unemployment rate was the same as in July: 9.5 percent. The forecast is not changed. The fourth quarter rate is still seen as averaging 9.26 percent with the year ending at a rate of about 9.0 percent. The fourth quarter average for 1984 is projected at 8.04. The rate will edge down to 7.85 by the last part of 1985.

It is good news that the factory workweek got a little longer in August. The average workweek for manufacturing employees inched ahead to 40.3 hours from 40.2 hours in July. Also, the gain of 0.3 percent in total civilian employment to 101,563,000 shows continued recovery.

KEDI agrees with Lea Tyler of Chase Econometrics that unemployment will gradually lower for the rest of the year. There will not be any more dramatic drops such as the change from 10 percent in June to 9.5 percent in July.

In the last part of August and the first part of September, there were declines in the first-time claims for unemployment benefits. About 409,000 people out of work filed claims for the first time.

1.41 HOUSING

(Table 1.41 on page 15)

The forecast is not changed. Single-family housing starts are seen as gaining 53.3 percent to just about 1 million this year over 1982. Multi-family starts are projected as gaining 46.4 percent to .593 million. Together that equals a total of 1.6 million—certainly an improvement over last year but

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	110.5	111.1	112.4	113.8	112.0	1.6
Employment	mil.	99.5	99.1	100.0	101.9	103.3	101.1	1.6
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	96.1	95.7	96.6	98.5	99.9	97.7	.5
Unemployment rate	%	9.72	10.34	10.10	9.37	9.26	9.77	-5.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.1	236.0	236.9	235.7	1.4
Civilian labor force	mil.	112.0	113.1	114.2	115.1	116.2	114.7	2.4
Employment	mil.	101.1	102.9	104.1	105.7	106.9	104.9	3.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	97.7	99.5	100.7	102.3	103.5	101.5	3.9
Unemployment rate	%	9.77	9.02	8.84	8.21	8.04	8.53	-12.7

Indicator	Unit	1984	1985				1985	% (1)
			1	2	3	4		
Population	mil.	235.7	237.5	238.1	239.1	240.1	238.7	1.3
Civilian labor force	mil.	114.7	117.7	119.3	121.6	123.2	120.5	5.1
Employment	mil.	104.9	108.4	109.9	112.1	113.5	111.0	5.8
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	.0
Non agricult.	mil.	101.5	105.0	106.5	108.7	110.1	107.6	6.0
Unemployment rate	%	8.53	7.94	7.91	7.84	7.85	7.89	-7.6

*Historical data (1) % change over previous year

still below more normal levels.

It had been forecast here that the high rate of starts earlier this year could not be maintained. Even though starts were up 8.4 percent in August, there was a drop in building permits.

The August rate was a seasonally adjusted 1.935 million. That was the highest rate since December of 1978. KEDI agrees with those analysts that do not see such a rate as sustainable and project starts as being lower during the remainder of this year. Building permits issued were down 6.5 percent between July and August on an adjusted basis.

The view of Commerce Secretary Malcolm Baldrige that the drop in permits might be a signal that high mortgage rates are an obstacle to more gains in housing activity is seen as on the right track. This Institute has expressed the view before that the level of mortgage costs and of average house prices is keeping many out of the housing market. With average family income in the low $20,000 range and the cost of a new house four to five times that in most instances plus mortgage rates of 13.5-14.0 percent, thousands of families cannot afford their dream.

Construction spending went up 1.7 percent in July. However, further gains are expected to be smaller by KEDI and others. The June gain had been 4 percent.

Michael Sumichrast of the National Association of Home Builders indicated that the strength of the housing rebound earlier this year has been and will be phasing down. KEDI agrees.

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast of car sales is revised slightly in an upward direction. This is primarily due to the revision of domestic car production for the rest of this year and next year by leading manufacturers. Production plans were increased by 64 percent for the last quarter of this year to 1.98 million autos. In the first quarter of next year, Ward's Automotive Reports cites a jump of 44 percent in production plans which now total 2.16 million cars for that quarter.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Single-family housing starts	mil.	.656	1.079	1.099	1.001	.846	1.006	53.3
Multifamily housing starts	mil.	.405	.615	.585	.603	.568	.593	46.4
Mobile home shipments	mil.	.239	.281	.293	.284	.287	.286	19.8
Permits authorized	mil.	1.000	1.464	1.639	1.625	1.510	1.560	56.0
1-family unit** price, new	tho.$	84.0	87.1	91.4	93.4	94.6	91.6	9.1
1-family unit** price,existing	tho.$	80.3	80.5	82.1	83.4	85.0	82.8	3.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Single-family housing starts	mil.	1.006	.889	1.182	1.196	.981	1.062	5.6
Multifamily housing starts	mil.	.593	.576	.645	.653	.622	.624	5.2
Mobile home shipments	mil.	.286	.274	.289	.286	.280	.282	-1.4
Permits authorized	mil.	1.560	1.330	1.592	1.614	1.548	1.512	-2.5
1-family unit** price, new	mil.	91.6	96.8	98.4	99.7	103.8	99.7	8.8
1-family unit** price,existing	tho.$	82.8	85.7	88.3	91.2	94.5	90.0	8.6

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Single-family housing starts	mil.	1.062	.910	1.108	1.064	.826	.977	-8.0
Multifamily housing starts	mil.	.624	.590	.654	.626	.527	.602	-3.6
Mobile home shipments	mil.	.282	.260	.267	.235	.214	.244	-13.5
Permits authorized	mil.	1.521	1.382	1.129	1.014	1.058	1.146	-17.1
1-family unit** price, new	tho.$	99.7	105.6	107.2	109.1	110.3	108.1	8.4
1-family unit** price,existing	tho.$	90.0	96.2	98.1	99.0	100.1	98.4	9.3

*Historical data (1) % change over previous year **Not seas. adjusted

AUTOMOBILES

However, the totals are still below the averages reached in the 1977-79 years when annual production was more in the range of 8.5-9.2 million. For the current year, total U.S. production is seen as being in the 7 million range.

Domestic car sales were projected at 6.5 million in the last issue--a gain of 12 percent over 1982. That is revised by KEDI slightly upwards.

New car sales were up 20.9 percent in the first 10 days of September. Mid-September sales were up less-6 percent. In all, during the first 20 days of September, sales showed a gain of 12.2 percent over the prior depressed year.

1.50 BUDGETS

(Table 1.60 on page 19)

There is good news here. Federal spending has been running below earlier government estimates. Due to the recovery, revenues have been higher than Washington anticipated. The Treasury Department has found itself with piles of cash which it will use to temporarily reduce the amount it borrows and put a bit of it toward the national debt.

Gargantuan federal deficits forecast here for this and the next few years will not significantly affect capital formation in the private sector. The red ink will not stifle recovery. Deficit reduction should begin when the economy is solidly on the road to being in good shape and not before. That is not seen here as being the case until at least 1985. Any earlier reduction in debt would knock the gradual and slightly fragile recovery for a loop.

KEDI is fairly optimistic as concerns the federal deficit. As recovery progresses, it will go down mainly because of increases in receipts from corporate taxes and income taxes. Confirmation of that is seen already. Treasury official announced that the deficit projected for fiscal 1983 (ending September 30) will be about $10 billion less than they had expected earlier. Their estimate for the fiscal 1984 deficit is lowered to the $165-170 billion range from $179.7 calculated by the Office of Budget and Management.

KEDI calculates the deficit being reduced roughly $20 billion as an annual

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	9.0	9.1	8.9	11.1
Domestic	mil.	5.8	6.0	6.6	6.8	6.9	6.6	13.7
Imported	mil.	2.2	2.4	2.2	2.2	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.2	1.1	1.3	1.2	-26.8
Factory shipments.	mil.	5.0	6.0	6.7	6.7	6.9	6.6	32.0
Light-duty truck sales	mil.	2.1	1.9	2.4	2.3	2.2	2.2	4.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.9	9.1	9.0	9.4	9.5	9.2	4.5
Domestic	mil.	6.6	6.6	6.8	6.9	7.1	6.9	5.4
Imported	mil.	2.3	2.5	2.2	2.5	2.4	2.3	.0
Dealers inventories**	mil.	1.2	1.4	1.3	1.3	1.4	1.4	16.7
Factory shipments**	mil.	6.6	6.7	6.8	6.8	7.2	6.9	4.5
Light-duty truck sales	mil.	2.2	2.0	2.3	2.2	2.1	2.2	.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	9.2	9.3	9.5	9.3	9.7	9.5	3.3
Domestic	mil.	6.9	7.0	7.2	7.2	7.3	7.3	2.8
Imported	mil.	2.3	2.3	2.3	2.1	2.4	2.2	4.8
Dealers inventories**	mil.	1.4	1.5	1.4	1.5	1.6	1.5	7.1
Factory shipments**	mil.	6.9	7.1	7.0	7.3	7.5	7.2	7.2
Light-duty truck sales	mil.	2.2	2.0	2.3	2.0	1.9	2.1	5.3

*Historical data (1) % change over previous year **Seas. not adjusted

average between 1983 and 1984. Between 1984 and 1985, the reduction forecast is at about twice that level: $40 billion or about 26 percent less.

1.60 INCOME

(Table 1.60 on page 21)

Despite the telephone workers strike that limited wage gains and the hurricane in Texas that cut rental income in official government measures, personal income managed to show some modicum of improvement. August personal income was up 0.2 percent. Sure, that was the worst showing since February, but the above factors put a crimp in the figures. KEDI sees the gain as positive and adequate. The trend here is a good one. The Commerce Department reported that the advance would have been about 0.5 percent if it had not been for the strike, hurricane, and special payments to postal workers.

Another piece of good news comes from the profit area. After-tax profits of manufacturers went up to an average of 4.2 percent of sales in the second quarter, whereas they were 3.2 percent of sales in the first quarter.

Labor costs are going up slowly. This is not an area to be frightened of this year. For that matter, such costs are not seen as rising unreasonably in the near future.

The KEDI forecast of personal income is in Table 1.60 As can be seen there, personal income is projected as rising 6.6 percent this year over the prior year. The gain in 1984 is seen as being 9.7 percent. (Neither is adjusted for inflation.)

It must be remembered that increased state and local taxes will cut purchasing and savings power as less income will be left in pockets and purses. Still, real gains will be there but in small measure.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

The forecast here remains the same. Tightening of money and credit reins long anticipated here became reality. The Federal Reserve has little maneuvering room.

In 1984, some easing is expected by KEDI toward the middle of the year. It

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	304.7	297.7	304.2	292.1	308.9	300.8	-1.3
Corporate prof. tax accruals	bil.$	46.5	48.6	59.8	64.8	69.1	60.6	30.3
Surplus/deficit	bil.$	-147.1	-183.3	-166.1	-180.2	-172.0	-175.4	19.2
State and local governments:								
Income taxes	bil.$	97.4	104.1	108.4	110.6	113.8	109.2	12.1
Corporate prof. tax accruals	bil.$	12.7	12.9	16.2	17.4	18.3	16.2	27.6
Surplus/deficit	bil.$	31.3	40.4	41.0	43.5	44.8	42.4	35.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	300.8	312.7	322.1	329.5	340.7	326.3	8.5
Corporate prof. tax accruals	bil.$	60.6	70.2	71.3	73.4	75.9	72.7	20.6
Surplus/deficit	bil.$	-175.4	-164.2	-158.7	-150.4	-138.2	-152.9	-12.8
State and local governments:								
Income taxes	bil.$	109.2	116.2	118.9	121.9	124.2	120.3	10.2
Corporate prof. tax accruals	bil.$	16.2	18.9	19.7	21.6	22.9	20.8	28.2
Surplus/deficit	bil.$	42.4	45.9	47.8	50.2	51.3	48.8	15.1

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Federal govt.:								
Income taxes	bil.$	326.3	346.7	354.1	362.1	369.6	358.1	9.8
Corporate prof. tax accruals	bil.$	72.7	78.1	80.1	82.6	83.7	81.2	11.7
Surplus/deficit	bil.$	-152.9	-120.8	-118.1	-110.3	-97.8	-111.3	-26.9
State and local governments:								
Income taxes	bil.$	120.3	126.1	128.2	132.4	137.1	131.0	8.8
Corporate prof. tax accruals	bil.$	20.8	23.1	23.4	23.7	24.0	23.6	13.2
Surplus/deficit	bil.$	48.8	52.6	53.7	54.5	55.8	54.2	11.0

*Historical data (1) % change over previous year

is only very recently that other economists have begun to forecast what has been maintained here for many months.

Others are now saying that the Fed will ease credit policy shortly. Statements refer to fears that the recovery will be hampered unless credit is eased soon. Buying plans for homes and cars are said to need bolstering by lower interest rates.

It is the position here that IT WOULD BE A MISTAKE TO EASE THE POLICY BECAUSE THE ECONOMY IS PERFORMING ADEQUATELY AT THE PRESENT, AND, SECONDLY, M1, M2, AND M3 ARE ABOVE ORIGINAL TARGETS SET BY THE FED.

This May, the Federal Reserve maintained the 1982 targets, but moved the time period for which they had been set ahead by half a year. Consequently, they actually had increased the targets.

KEDI agrees with the view that the economy has done pretty well despite high interest rates. Any easing now would increase the chance of having to tighten next year. (Perish the thought as it's an election year.) It is felt that there will not be any changes--the Fed will keep to current policies. No significant changes are expected by KEDI at the October 4, 1983, meeting of the Open Market Committee.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 24)

The forecast is not changed. In general, interest rates will stabilize in the first part of next year and move down a bit in the latter part of 1984. Any movements during the rest of this year will be quite small.

KEDI maintains its assumption that the Fed will not ease SIGNIFICANTLY credit conditions by letting interest rates drop. A generally tight policy is seen.

Data show the recovery is NOT losing steam. The expansion is healthy. It is robust in the current quarter. A "flash" report by the Commerce Department showed GNP growing at an adjusted annual rate of 7 percent in the third quarter. That is a strong performance.

The chief economist at San Francisco's Bank of America, John Wilson, pointed to the Fed tight policy continuing. Albert Sommers of the Conference Board

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2578.6	2657.7	2713.6	2787.5	2847.5	2751.6	6.7
Personal disposable income	bil.$	2176.5	2255.9	2301.0	2384.7	2424.8	2341.6	7.6
Compensation of employees	bil.$	1865.7	1923.7	1968.7	1993.9	2054.1	1985.1	6.4
Corporate after tax profits	bil.$	115.1	108.2	127.2	136.1	147.3	129.7	12.7
Personal saving	bil.$	125.4	121.7	91.5	120.5	130.7	116.1	-6.4
Average weekly earnings	$	330.1	342.3	351.1	354.2	360.1	351.9	6.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2751.6	2915.1	2926.4	2938.9	3032.1	2953.1	8.3
Personal disposable income	bil.$	2341.6	2486.2	2530.3	2587.5	2567.2	2542.8	8.6
Compensation of employees	bil.$	1985.1	2103.6	2136.5	2180.2	2241.3	2165.4	9.1
Corporate after tax profits	bil.$	129.4	154.6	157.6	162.0	164.3	159.6	23.3
Personal saving	bil.$	116.1	132.1	142.0	151.2	154.1	144.9	24.8
Average weekly earnings	$	351.9	366.5	372.8	379.9	385.4	376.2	6.9

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Personal income	bil.$	2953.1	3053.7	3184.5	3243.8	3320.3	3200.6	8.3
Personal disposable income	bil.$	2542.8	2581.5	2702.2	2749.3	2813.6	2711.7	7.6
Compensation of employees	bil.$	2165.4	2272.5	2305.7	2341.5	2362.4	2320.5	7.2
Corporate after tax profits	bil.$	159.6	172.1	174.3	175.2	176.1	174.4	9.3
Personal saving	bil.$	144.9	156.2	159.7	158.3	154.2	157.1	8.4
Average weekly earnings	$	376.2	388.1	391.4	397.2	405.8	395.6	5.1

*Historical data (1) % change over previous year

INTEREST RATES, YIELDS, AND SECURITIES PRICES

cited the strength of the recovery as the reason interest rates will remain high. KEDI agrees with both of these outlooks.

KEDI does not share any view that sees the recovery as losing steam. Such an attitude was expressed by Edward Hyman of Cyrus J. Lawrence, Inc., a securities firm.

If there is any drop in interest rates, the change will be marginal. KEDI does not expect much of a change.

The forecast for the stock market looks to some small declines latter this year and in the first part of next year with an upward trend returning in the second part of 1984.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Implicit GNP Price Deflators for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.5, May 1983 (U.S. Department of Commerce, Washington, D.C., monthly.)Forecast data are in Business Forecasts 1982 (Federal Reserve Bank of Richmond,Richmond, Virginia, February 1982.)

The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Implicit GNP Price Deflator,1972=100.)

Actual Figure: 207.2

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts	% of Accuracy
U.S. Trust Company	12/81	209.4	9	+1.1
Georgia State	11/81	209.2	15	+1.0
Peter L. Bernstein, Inc.	11/1/81	207.0	16	-.1
Harris Trust and Savings Bank	11/11/81	207.2	16	.0
Chemical Bank	11/19/81	208.1	18	+.4
ASA and NBER	12/81	208.8	19	+.8
Metropolitan Life Insurance Co.	12/1/81	209.0	21	+.9
Paul C. Harmon, ARMCO	12/4/81	208.8	22	+.8
Manufacturers Hanover Trust	12/11/81	208.7	25	+.7
Fidelity Bank	12/18/81	206.4	26	-.1
Cities Service Company	12/31/81	209.1	27	+.9
KEDI	1/1/81	206.6	28	-.1
Morgan Guaranty Trust Company	1/7/82	207.3	30	.0

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983				1983	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	473.5	490.3	505.2	515.4	523.8	508.7	7.4
Time deposits, adjusted, M2	bil.$	1918.2	2042.6	2095.1	2169.2	2203.4	2127.8	10.9
Consumer instal. credit	bil.$	343.4	342.6	353.0	360.7	369.3	369.3	7.5
Commerc.& indus. loans at banks	bil.$	392.2	397.8	395.9	398.2	402.6	402.6	2.4
Large denomination time dep.	bil.$	319.6	301.6	301.3	303.4	305.9	303.1	-5.2
Mortgages at S & L Assns.	bil.$	482.2	475.7	471.6	479.2	487.6	487.6	1.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	508.7	527.2	533.4	545.8	553.4	540.0	6.2
Time deposits, adjusted, M2	bil.$	2127.8	2238.7	2291.1	2332.2	2406.8	2317.2	8.9
Consumer instal. credit	bil.$	369.3	372.6	378.7	385.6	395.4	395.4	7.1
Commerc.& indus. loans at banks	bil.$	402.6	405.3	409.1	412.8	417.1	417.1	3.6
Large denomination time dep.	bil.$	303.1	307.4	311.2	313.4	317.2	312.3	3.0
Mortgages at S & L Assns.	bil.$	487.6	491.2	498.6	502.4	507.3	507.3	4.0

Indicator	Unit	1984	1985				1985	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	540.0	560.9	568.3	576.3	582.6	572.0	6.0
Time deposits, adjusted, M2	bil.$	2317.2	2450.2	2521.4	2618.3	2708.7	2574.7	11.1
Consumer instal. credit	bil.$	395.4	400.9	404.8	410.6	416.8	416.8	5.4
Commerc.& indus. loans at banks	bil.$	417.1	419.2	423.3	426.8	431.5	431.5	3.5
Large denomination time dep.	bil $	312.3	320.8	325.5	329.1	334.3	327.4	4.8
Mortgages at S & L Assns.	bil.$	507.3	512.8	518.6	526.2	531.4	531.4	4.8

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Treasury bills (3 mo) yield	%	10.20	8.07	8.40	9.18	9.24	8.72	-14.5
Prime rate	%	14.86	10.82	10.50	10.52	10.67	10.63	-18.5
Conventional mortgages rate	%	15.57	13.26	13.16	13.10	12.98	13.12	-15.7
Aaa corporate bonds rate	%	13.78	11.81	11.44	12.36	12.42	12.01	-12.8
20 years Govt. bonds yield	%	12.70	10.87	10.81	11.51	11.32	11.13	-12.4
Standard & Poor's 500 avg.	1941-43=100	119.75	147.94	162.73	160.27	158.91	157.46	31.9

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Treasury bills (3 mo) yield	%	8.72	9.18	9.16	9.01	8.89	9.06	3.9
Prime rate	%	10.63	10.58	10.49	10.04	10.02	10.28	-3.4
Conventional mortgages rate	%	13.12	12.85	12.79	12.58	12.36	12.65	-3.6
Aaa corporate bonds rate	%	12.01	12.47	12.59	12.36	12.18	12.40	3.2
20 years Govt. bonds yield	%	11.13	11.67	11.85	11.81	11.64	11.74	5.5
Standard & Poor's 500 avg.	1941-43=100	157.46	157.32	159.26	163.14	165.27	161.25	2.3

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Treasury bills (3 mo) yield	%	9.06	8.78	8.82	8.89	8.93	8.86	-1.2
Prime rate	%	10.28	10.00	10.21	10.26	10.32	10.20	-.8
Conventional mortgages rate	%	12.65	12.31	11.97	11.91	11.96	12.04	-4.8
Aaa corporate bonds rate	%	12.40	12.06	12.34	12.56	12.61	12.40	.0
20 years Govt. bonds yield	%	11.74	11.92	12.03	12.05	12.14	12.04	2.5
Standard & Poor's 500 avg.	1941-43=100	161.25	167.51	160.24	161.14	158.72	161.90	.4

*Historical data (1) % change over previous year

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product	SCB, Table 1.2
	Personal consumpt. expend.	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Government purchases of goods and services:	
	Federal	SCB, Table 1.2
	State and local	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

3/28/83 U2735-1 A -

LOUISIANA BUSINESS REVIEW

Louisiana State University,
Baton Rouge

WASHINGTON

Taxes – Paying for a civilized society

LETTER FROM THE EDITORIAL BOARD

Oliver Wendell Holmes said that "taxes are what we pay for a civilized society." According to the proponents of the various tax reduction and tax limitations referenda, the citizens of the United States have been blessed with more civilization than is necessary or desirable. In 1980, federal government tax revenues took approximately 25% of total personal income, up slightly from 24% in 1960 and 22% in 1950. The most important source of tax revenue is the individual income tax which accounts for approximately 55% of total federal revenues. Employment related taxes account for 25% of federal revenue; the corporate income tax constitutes 14%, excise taxes 4.7%, and estate and gift taxes comprise 1.3%.

Louisianians can take some solace when paying their federal taxes. According to federal data, the per capita tax payments made by Louisianians in 1980 total $1,733, whereas, the per capita expenditures made by the federal government in Louisiana total $1,866. If these data are correct, they indicate that for each dollar paid in federal tax revenues, Louisianians receive $1.08 from the federal government.

In addition to the federal government, state and local governments also collect considerable tax revenues from their citizens. Total local and state government tax receipts, excluding federal grants, constitute 14% of total personal income. Between 1960 and 1980, federal tax revenue increased by 460%, but state and local government tax revenues increased by 580%.

Total revenue for state and local governments in Louisiana totaled $7,055 million in 1980; property taxes accounted for only 7% of this revenue, other taxes accounted for 43%, charges and miscellaneous receipts comprised 26% and grants from the federal government accounted for 24%.

Considerable attention has recently been directed at the income taxes paid by high income individuals. During 1980, taxpayers with incomes above $100,000 paid 15% of all federal individual income taxes. If those earning above $100,000 per year were to pay a tax rate of 100% of this adjusted gross income without any deductions or exemptions permitted, the total government revenue would increase by $85 billion, or only 16% of total government revenue. Tax rate increases, or decreases, in the top income bracket have relatively little impact on total revenues.

Taxes have many purposes; most importantly, they are used to obtain revenues to finance public expenditures. Taxes have other purposes, however. They are raised and lowered in order to manage, or at least attempt to manage, the national economy; taxes are used to discourage consumption of certain commodities such as alcohol or tobacco; and to increase consumption of certain goods such as home ownership which is encouraged by the interest deduction. Tax policies also are used to encourage or discourage imports and exports and to redistribute income. More recently, the "supply side" advocates have proposed that tax reductions can be utilized to provide additional individual and business incentives to reindustrialize the American economy.

Tax policies have many objectives which often conflict with each other. One example is that taxes designed to meet certain equity goals conflict with the objective of fostering economic growth. Some equity concepts require relatively high marginal tax rates on high income individuals but these high tax rates discourage economic incentives and growth. The American tax system is a collage of various tax structures, rates, deductions, exemptions, deferrals and technicalities. The system is complex because individuals, working through pressure groups, want the tax system to achieve certain equity, and personal and social goals.

This issue of the *Louisiana Business Review* contains four articles on selected topics related to taxation. The first two articles inform the reader about the recent federal tax law changes and the numerous ways in which taxpayers can take advantage of changes in the tax laws. The other two articles analyze the projected revenue and expenditure patterns for the next five years and the impact of Federal tax law changes on Louisiana's AFDC receipts.

"Tax Planning and Recent Changes in the Tax Laws," was written by Joseph H. Martini, partner-in-charge of the New Orleans office of a major accounting firm. Mr. Martini presents a thorough summary of recent changes in tax rates and regulations resulting from the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982. The article not only summarizes these tax changes, but it provides a very useful analysis of the impact of these tax changes on individual tax planning.

Although the media have discussed the tax rate deductions, many of the other changes have not been highlighted. In time, the most significant tax law change is most likely to be the indexing of tax brackets and personal exemptions to the Consumer Price Index after 1984. This will prevent "bracket-creep" which resulted from a combination of the progressive income tax and inflation. "Bracket-creep" caused an ever-increasing proportion of workers' income to be paid in income taxes. However, this change will significantly reduce the income elasticity of the individual income tax and could produce budgetary problems in the years ahead.

The article by Hoffman and White, "The Impact of Recent Tax Legislation on Investment in Realty Property," examines how the two recent tax laws have affected the tax treatment of investments in realty property. The authors point out that the tax benefits of investing in both residential and non-residential property have increased significantly, and that investments in rehabilitation

(continued page 5)

FALL/WINTER 1982

CONTENTS

Vol. 46 no. 4

Publisher:
Louisiana State University
College of Business Administration
Division of Research
Baton Rouge, LA 70803

Acting Editor:
Joe Wagner

Art Director:
Chet Boze

Editorial Assistant:
Brenda S. Bulmer
S. Duward Lyons

Editorial Secretaries:
Nora Fierro
Ellen R. Thrash

Editorial Board:
David B. Johnson, Chairman
Ana Maria Turner Lomperis
Loren C. Scott

Typesetting and Printing:
LSU Graphic Services

The LOUISIANA BUSINESS REVIEW, published quarterly by the Division of Research in the College of Business Administration, is owned and provided as an educational service by Louisiana State University and Agricultural and Mechanical College, Baton Rouge, Louisiana, a state-owned and operated institution of higher education.

Content of this publication is not copyrighted and may be reproduced without the consent of the publisher and/or authors. Proper acknowledgement should be given to the quarterly and its contributors for any use of published material.

'The views and opinions expressed in articles appearing in this publication are those of the individual authors, and do not necessarily represent those of the *LBR* Editorial Board or Louisiana State University, Baton Rouge.

The Editorial Board invites the submission of manuscripts to be considered for publication in this quarterly. Style sheets for manuscripts and manuscript abstracts are available upon request. Comments and suggestions on any material appearing in the *LBR* are also welcome.

All communications and address changes should be sent to the editor, Louisiana Business Review, Division of Research, College of Business Administration Louisiana State University, Baton Rouge, LA, (504) 388-6645.

LOUISIANA BUSINESS REVIEW

2 **Letter from the Editorial Board**

4 **Louisiana Bulletin**

6 **FORUM: Federal Welfare Expenditure Changes' Impact on Louisianians**
by Thomas D. Birch and Gregory D. Findley

10 **Louisiana Revenues and Expenditures: The Next Five Years**
by William G. Black

16 **Book Corner**

17 **Research Notes**

18 **Tax Planning in Light of Recent Legal Changes**
by Joseph H. Martini and W. Robert Smith, Jr.

23 **National News**

24 **The Effect of Recent Tax Legislation on Investments in Realty Property**
by Richard A. White and Michael J. R. Hoffman

30 **College Highlights**

LOUISIANA BULLETIN

Southern Immigration on the Rise

The almost-traditional South-to-North migration pattern in the United States workforce took an important turnaround in the 1970s, with the region attracting a burgeoning number of people from other parts of the country and more southerners staying home, according to **William J. Kahley** in the Federal Reserve Bank of Atlanta's *Economic Review*. While the South lost population through internal migration in each of the first six decades of this century and most southern states continued to experience out-migration through the 1960s, these losses were reversed in the 1970s.

Among the changes, which seem to have emerged in recent years in southern migration patterns, are the addition of more women than men to its population, and the attraction of more than 350,000 people annually, compared to only 130,000 in the late sixties. Also, for the first time, interregional migration is adding to the South's black population. Experienced workers are becoming a more dominant force in the South's migration gains, as it attracts workers in all occupations, instead of being limited to the white-collar and skilled craftsmen influx of the sixties. Finally, recent migration is causing the South to benefit from a North-South "brain drain," which is helping to lower the incidence of Southern poverty.

This new migration to the South is almost surely positive in its impact on the well-being of the region's population, Kahley says, pointing out migration helped to increase per capita personal income from 86 percent of the national income level, $3,945, in 1970 to 91 percent of the national income level, $9,521, in 1980.

It is unlikely that the South's favorable migration balance will be reversed in this decade. For environmental and economic reasons it appears that capital and businesses are still flowing into the South from other regions. It is likely that firms looking to the region are finding the changing composition of the resident workforce—older and more educated—to be an attractive feature of the South. It should also be encouraging to firms that past business investments in the region have succeeded in attracting workers from outside, the regional economist predicts.

Two major demographic events are likely to affect migration flows into the South in the 1980s, Kahley points out—the falling rate of natural increase for the nation, and the aging of the baby boom generation. The low rate of natural increase, combined with changes in the age structure of the population, will slow the growth of the migration pool. If the migration tendencies of the late seventies hold through this decade, then the South's yearly migration gain will hold steady, too. Furthermore, he says, the aging of the baby boomers suggests that the average age of migrants will rise as older workers continue to follow business to the South, joining the migration stream of the elderly retired.

Kerosene Heater Caution

Portable kerosene heaters have become increasingly popular with consumers seeking ways to reduce their utility bills. While these heaters are highly efficient, they also are potentially dangerous, says the Louisiana Department of Natural Resources, which is stressing the public's need to take certain precautions when using kerosene heaters.

Unvented heaters should always be used with adequate ventilation to guard against asphyxiation from the difficult-to-detect carbon monoxide fumes which are odorless, colorless, and nonirritating. As when using unvented natural gas heaters, residents should never go to sleep while the heaters are burning.

Kerosene produces three poisonous gases when it is burned—carbon dioxide, nitrogen dioxide, and sulphur dioxide. To avoid the greatest danger of these gases, consumers should be careful to use only 1-K grade kerosene, which has a maximum sulphur content of 0.04 percent by weight. Grade 2-K, or regular grade kerosene, has a sulphur content of 0.03 percent by weight, and is more dangerous than K-1 because of the noxious by-products it creates when burned.

Southeast Is Most Popular Industrial Relocation Area

A major geographical displacement of industry is taking place within the United States, according to **James S. Fisher** and **Dean M. Hanink** in the *Economic Review* of the Federal Reserve Bank of Atlanta, and, not surprisingly, the most popular relocation area is the Southeast.

In the past the Southeast has attracted the majority of light manufacturing industries such as textiles and apparel, or resource-tied industries such as lumber, furniture, paper and some kinds of chemicals. According to the report, the Midwest relied on the concentration of heavy industries—mainly primary metals, fabricated metals, transportation equipment and machinery. This pattern, however, has been changing in recent years.

In 1968, textiles employed 20 percent of manufacturing workers in the Southeast; apparel's share was 12 percent; and the next largest industry—chemicals—was only half the size of apparel. From 1968 to 1978, the traditional industries of the Southeast grew comparably slower than the average of all industries while the rest—the Northern industries—grew much faster than average.

Now industry is becoming more balanced between durables and nondurables with less reliance by most states on small numbers of industries. This pattern is fairly general and has resulted in the economic structure of the Southeast becoming comparable to the nation as a whole.

Small Businessmen Are Warned Of Unscrupulous Loan Brokers

Several Louisiana small businessmen, developers, farmers and a church were bilked last year by unscrupulous loan brokers, according to the state Department of Justice.

There has been a substantial increase in the number of frauds involving up-front fees to assure low-interest loans. Those fees often total several thousands of dollars, and they are given to unscrupulous brokers for loans that will never be made. Although there is a new state law to combat the problem, state records compiled by the state Office of Consumer Protection and the Department of Justice show Louisiana citizens lost at least $36,025 last year in advanced fees.

In the face of hard economic times for business, the problem of unethical loan brokerage is more prevalent as new and old businesses attempt to secure low-interest loans. The FBI, also involved in the investigation, describes the typical victim as an honest, enterprising small businessman seeking to borrow up to $3 million for his business. Lost amounts ranging from $250 to $10,000 have been recorded.

The Louisiana Loan Broker Law requires that a $25,000 surety bond or trust account be filed with the state treasurer and updated annually for those claiming to be loan brokers. Since the enactment of the law, the Justice Department has sent notices to nine persons throughout the state believed to be advanced-fee brokers. The department advises borrowers to ask brokers about the number of loans they have been asked to secure and the number of loans they have actually placed in the borrowers. Prospective borrowers should consult an attorney before signing any contracts.

New Grain Transfer Facility In Operation on Mississippi

The world's largest floating grain-transfer facility has gone into operation on the Mississippi River, north of New Orleans. Operated by Rogers Terminal & Shipping Corporation, stevedoring division of Cargil, Incorporated, the $16.2 million facility is capable of loading vessels with 1,500 tons of oilseed meal per hour. It is 330-feet long by 75-feet wide and operates while secured between an ocean vessel and a barge. The facility's bucket type unloader can unload 2,000 tons of meal per hour—more than an entire barge load.

□

LETTER

(continued from page 2)

expenditures have also received favorable tax treatment.

The recent budget cutbacks in the state government's operating budget have highlighted the fact that Louisiana is not recession-proof. A factor of even more basic concern is that Louisiana's tax structure is not very elastic. This means that the tax structure of Louisiana does not generate a growth of revenues sufficient to keep pace with increasing prices and real growth in the economy. In "Louisiana Revenues and Expenditures: The Next Five Years," William G. Black, an economist with the Legislative Fiscal Office, examines the history and expenditures of state revenues and makes projections for the next five years. In the past 10 years, significant tax increases were produced by tax rate increases or by "windfall gains", such as oil price decontrol, which resulted in an increase in the price of oil. In the absence of future windfalls or tax rate increases, and state tax collection increases, the inelastic nature of the state's tax structure will result in state revenues not keeping pace with state expenditures.

This issue's FORUM column features an article written by Thomas Birch, instructor in LSU's Department of Economics, and Gregory Findley, planning analyst for Louisiana's Department of Health and Human Resources. "Federal Welfare Expenditure Changes: Impact on Louisiana's AFDC Recipients," examines one aspect of the expenditures result of tax reductions. The authors examine the reduction in the federal government financing of AFDC in general and Louisiana in particular, and they present some arguments against these reductions.

—The Editorial Board □

Thomas D. Birch and Gregory D. Findley

FORUM

Federal Welfare Expenditure Changes' Impact on Louisianians

Given the Reagan administration's emphasis on reducing federal budget deficits and commitment to increasing real defense outlays, the long run significance of the Economic Recovery Tax Act of 1981 may very well be the resulting reductions in nondefense spending. The impact that such reductions in the area of social welfare programs have had, and may have in the future, are analyzed in this article, with emphasis on the Aid to Families with Dependent Children (AFDC) program. Reductions in outlays for the AFDC program are found to lower the real income of recipients and erode the work incentives required to encourage their economic and social mobility. The opinions expressed in this article are those of the authors, and do not necessarily represent those of the Louisiana Department of Health and Human Resources or Louisiana State University, Baton Rouge.

The Economic Recovery Tax Act of 1981 has attracted public attention both because of the size of the tax reductions it authorized and because individual taxpayers will benefit directly from its permanent reductions in personal income tax rates. One important consequence of the tax cuts in view of the Reagan administration's basic commitments to reducing overall federal government outlays as a percentage of the gross national product, dramatically increasing real defense expenditures and balancing the federal budget, will be large and permanent reductions in outlays for nondefense programs. One set of nondefense programs faced with such reductions is social welfare.

Such social welfare programs as Aid to Families with Dependent Children (AFDC), Food Stamps, Medicaid and Supplemental Security Income provide cash and in-kind assistance to individuals meeting certain "need" criteria, typically based on income. It is useful to distinguish such programs from social insurance programs (e.g., Medicare), which make payments to individuals who

TABLE 1

Total AFDC Payments in Louisiana, Fiscal Years 1978-79 through 1982-83

	Actual Dollars		Real Dollars	
Fiscal Year	Payments	Percentage Change	Payments	Percentage Change
1978-79	$ 95,717,891	—	$ 95,717,891	—
1979-80	108,939,870	13.8	95,310,472	−0.4
1980-81	128,132,354	17.4	102,424,423	7.5
1981-82	129,951,357	1.4	96,906,306	−5.4
1982-83	130,032,000	0.1	90,237,335	−6.9

1 Adjustment to real dollars is based on the Consumer Price Index for June in each Fiscal Year, with FY 1978-79 = 100. It was assumed that the CPI will increase by 7.2 percent from June 1982 to June 1983.

2 Payments for FYI 1982-83 represent the funds appropriated for AFDC payments in the Fiscal Year 1982-83 Louisiana State Budget. All other payment figures are actual payments.

Source: Louisiana Department of Health and Human Resources

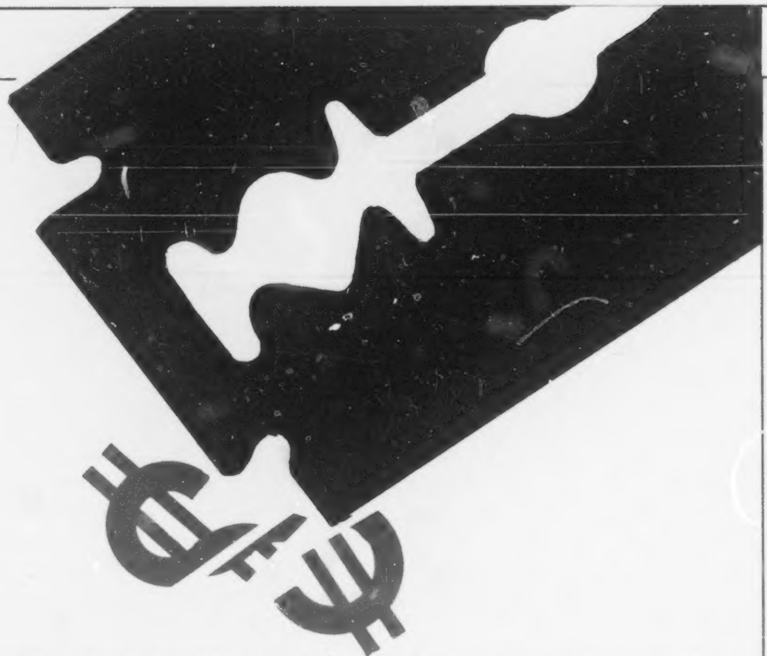
TABLE 2

Actual and Real Dollar Value of Monthly AFDC Flat Grant for a Family of Three With No Earnings in Louisiana, Fiscal Years 1978-79 to 1982-83

	Actual Dollars		Real Dollars	
Fiscal Year	Grant	Percentage Change	Grant	Percentage Change
1978-79	$138	—	$138	—
1979-80	153	10.9	134	−2.9
1980-81	173	13.1	138	3.0
1981-82	190	9.8	142	2.9
1982-83	190	0.0	132	−7.0

1 Adjustment to real dollars is based on the Consumer Price Index for June in each Fiscal Year, with FY 1978-79 = 100. It was assumed that the CPI will increase by 7.2 percent from June 1982 to June 1983.

Source: Louisiana Department of Health and Human Resources



have certain characteristics (aged, unemployed or disabled), and who have contributed financially to the programs' support.

Although there are many welfare programs directly affecting low-income Louisiana residents, the AFDC program is considered here, because it serves the poorest of the poor. Also, unlike the Food Stamp Program, where determination of benefit levels, establishment of eligibility criteria and financing are the responsibility of the federal government, the AFDC program entails considerable state responsibility.

Impact of Revisions

Under the AFDC program, cash payments are made directly to eligible AFDC families (typically, low-income, single-parent families with dependent children), some of which have no other source of income, except for benefits they may receive from other welfare programs.[1] The AFDC program perhaps is best thought of as a federal grants-in-aid program, in which the government helps share program costs with the states. States establish their own benefit levels and exercise discretion in determining some eligibility standards. The federal-to-state proportion of AFDC program costs (called the "matching rate") varies across the U.S., and is dependent upon each state's per capita income. This matching rate averages 54 percent and ranges from 50 to 74 percent. In Louisiana the matching rate is 67 percent, meaning the federal government contributes $.67 of every dollar paid to eligible AFDC families. State and federal payments to individuals under this program, for fiscal years 1979 through 1983, are presented in *Table 1*. This information provides an overview of the level of commitment of Louisiana to the FDC program, and reflects a decline in current support for it.

Federal law requires each state to establish annual "needs" standards for AFDC families. There is, however, no federal requirement that payments by the state be adjusted to needs. About half of the states, including Louisiana, do not pay the full amount of the needs standard, which is set below the poverty line.[2] This means that for already established federal benefit payments and eligibility criteria in other welfare programs (e.g., Food Stamps, Energy and Housing Assistance), each state has the power—via its control over AFDC benefits levels—to determine by how far an AFDC family will be below the poverty level. A measure of the most recent Louisiana effort to help the lowest income level—nonworking, single-parent families, with no other source of income—is found in *Table 2*.

Two notable facts emerge from *Table 2*. First, payments to those truly needy AFDC families have fluctuated in real terms over the past few years. Second, the table shows that real AFDC payments to these families in FY 1982-83 will fall to the lowest level since FY 1979-80, due to the recent Louisiana decision not to increase benefits for this year.[3] The conclusion to be drawn from this data is that the average AFDC nonworking family of three will see its real payment decline slightly in FY 1982-83; a change that could have an adverse effect on the very poor. Even taking into account payments from other welfare programs, (e.g., Food Stamps and Energy Assistance), Louisiana's payments are insufficient to raise the average AFDC family to the poverty level. For example, the average monthly disposable income for a *non-working*[4] AFDC family of three is $366, or 62 percent of the poverty level. The national average is $450 per month, or 76 percent of the poverty level. Furthermore, this average monthly income will drop to $356 per month in Louisiana, or 60 percent of poverty, under FY 1982-83 national administration proposals.[5]

The 600,000 *working* AFDC recipients and their families perhaps represent the national group most adversely affected by the FY 1981-82 and proposed FY 1982-83 AFDC program changes. Immediately prior to the federal budget reductions accompanying the 1981 Tax Act, an average working AFDC family of three had a monthly disposable income of $595, which was 1 percent *above* poverty level. It is estimated the 1982 changes will decrease that same family's monthly disposable income to $476, or 19 percent *below* the poverty line. In Louisiana, a similar pattern emerges for the working poor. The monthly disposable income of a working AFDC family of three will fall from $449 (76 percent of poverty) in 1981 to an estimated $371 (63 percent of poverty), under current law.[6]

The cause of these income reductions for working AFDC families stems from several changes in federal AFDC regulations enacted in FY 1981-82. In effect, these changes raised the measured income of many AFDC households and resulted in some four thousand families become totally ineligible for AFDC aid, while others began receiving lower payments.[7] Some additional AFDC program changes proposed by the administration for FY 1982-83 will further restrict eligibility.[8] In Louisiana, it is estimated the monthly disposable income of a working AFDC family of three, with average earnings, will fall to $349 (59 percent of poverty), if these proposals are enacted.[9]

Welfare Reduction

It is perhaps worthwhile, at this point, to examine the arguments offered to justify the benefit cuts in welfare programs. The following arguments appear representative of at least some of the influential views that have helped form opinions against maintaining or increasing previous levels of real welfare spending. Reconsidering these arguments will be useful in developing a more clear understanding of welfare reform and some of its impact on welfare recipients, particularly the working poor.[10]

1. *Welfare programs discourage work incentives among the poor.*

Concern about improving work incentives is one of the central pillars of the supply-side economic philosophy that helped motivate the passage of the 1981 Economic Recovery Tax Act. According to this argument, cutting welfare payments will encourage work among the poor because it will become more expensive not to work. Therefore, cutting welfare payments is seen as contributing to economic and social mobility for the poor, and to overall U.S. economic growth.

The striking fact about the recent welfare programs changes is that they may very well *reduce* work incentives among the poor, while ironically *increasing* the number of families dependent upon welfare. Although a working person collecting welfare benefits may not formally pay income taxes, that person is still subject to a marginal benefit-reduction rate, by which additional welfare benefits are sacrificed as additional dollars of income are earned above some specified minimum. The marginal benefit-reduction rate is identical to a marginal income tax rate, in that it imposes additional losses on the individual as he earns additional income. Marginal tax rates are decisive in determining whether or not an individual will desire to work more or less.[11]

In Louisiana, prior to the FY 1981-82 program changes, for every additional dollar earned by AFDC recipients, their benefits were reduced by $.67. Now, after the FY 1981-82 changes affecting welfare programs, the marginal benefit reduction rate for that same Louisiana worker stands at 97 percent. Moreover, under the Reagan administration's FY 1982-83 welfare program proposals, this rate would reach 103 percent in Louisiana.

These extremely high marginal tax rates imply that, while in FY 1980-81, a three-person AFDC family having a working parent with average earnings could have expected to make $83 per month more than a similar family with no working parent, in FY 1981-82, the monthly income difference between the two families was only $5. Furthermore, under the administration's FY 1982-83 proposals, a working AFDC family actually ends up with $7 per month *less* in disposable income than an AFDC family with no workers.[12] Clearly, this policy is both inconsistent with the supply-side principle of promoting work effort, and is harmful to the working poor with dependent children trying to better their economic positions and future opportunities.

A further important consequence of eliminating virtually all incentives for AFDC families to work themselves out of poverty is that AFDC parents may begin reducing their work efforts, or never attempt to work in the first place. In the process, AFDC families may become more dependent upon welfare payments as a means of subsistence. This has the additional implication that the anticipated federal and state savings from the changes legislated for the AFDC program may be overly optimistic.

For example if working Louisiana AFDC parents should become totally dependent on welfare payments (at a sacrifice of only $5 per month in 1982), then the estimated federal costs will increase by roughly $50 per month, per family.[13] This will occur because unemployed AFDC parents are eligible for more AFDC payments, as well as benefits from other welfare programs such as Food Stamps, than are their working counterparts. Thus, welfare payments increase if working AFDC families elect to quit.

2. *The relatively poor performance of the U.S. economy over the past decade can be attributed to the rapid rise in government outlays, particularly for those programs, such as welfare, that are designed to redistribute income. It is necessary, therefore, to reduce the amount of welfare payments to improve the overall economic situation.*

There is little doubt that, from a federal policy perspective, the relationship between macroeconomic objectives such as economic growth, stable prices and full employment, and national redistributive objectives (the intent of welfare programs) has changed over the past 20 years. In the 1960s, the stance seemed to be that redistributive government policies are positively harmful to the attainment of macroeconomic goals. In fact, however, it is unclear how much of the U.S. economic slowdown can be attributed directly to governmental policies, much less that component of government policy which transfers resources to the needy.[14] Even if it were determined that redistributive policies hinder the attainment of macroeconomic growth, there is no *a priori* rule for making cuts in programs that redistribute income to the poor, relative to programs that redistribute income based on other criteria (e.g., the Social Security program, which redistributes income primarily on the basis of age).

Another important point to make in response to this argument is that while welfare programs, as a whole, have grown both relative to the GNP, and as a percentage of the federal budget, certain programs—most notably AFDC—have declined in real terms during the past few years. To attribute our relatively sluggish macroeconomic performance to governmental assistance to the poor, which constitutes only approximately 1 percent of GNP and only 9 percent of total federal budgetary outlays, stretches credulity.[15] Further, targeting the outlays for a specific program like AFDC which has been declining in both real terms and relative to the GNP, for disproportionate cuts cannot be expected to have a significant effect on a $2.8 trillion economy. Understanding and correcting the causes of our relatively poor macroeconomic performance is a much more complex matter than reducing, or even eliminating, government programs that redistribute income to the needy.

Summary and Conclusions

The brighter economic future envisioned by the Reagan administration—intended to be sparked by the Economic Recovery Tax Act of 1981—may yet be forthcoming. However, as the situation stands, both working and nonworking AFDC families are not likely to share in these potential economic gains. Indeed, given the extraordinary disincentives to work, currently confronting AFDC families, there is little hope AFDC parents will be able to help themselves out of poverty. The result of this situation may be greater welfare dependency and significant reductions in the savings anticipated from enacted and proposed welfare program revisions.

If the Reagan administration is to realize the lower levels of welfare dependency and welfare program costs that it desires, then its welfare reform efforts should concentrate on such issues as restoring the incentives to work among the poor by significantly reducing the marginal benefit reduction rate, and establishing a clear and meaningful criterion of need that is immune from *ad hoc* changes detrimental to the poor.

[1] For example, AFDC families are automatically eligible for Medicaid payments, and most families (75 percent) receive at least some food stamps.

[2] In addition, states have the option of providing AFDC payments to households with an unemployed parent; one-half of the states provide such a payment, Louisiana does not.

[3] Although this was a Louisiana decision, it is appropriate to point out that some (but by no means all) of the "tight" fiscal environment state legislators found themselves operating under, was partly a result of macroeconomic conditions and exogneous budget cuts—besides cuts in welfare programs—that were the result of federal economic policy decisions.

[4] It is important to note that the discussion here is about the very poor who have no other source of income beyond welfare payments.

[5] Tom Joe, *Profiles of Families in Poverty: Effects of the FY 1983 Budget Proposals on the Poor* (Washington, D.C.: The Center for the Study of Social Policy, February 1982): p. 10.

See also:
Sheldon Danziger and Robert Haveman, "The Reagan Budget: A Sharp Break With the Past," Challenge (May/June 1981): pp. 5-13.

These reductions are the result of the following: (1) grants of all AFDC families will be reduced dollar-for-dollar by the amount of energy assistance benefits received and Food Stamp benefits will be reduced for each $10 received in energy assistance; and (2) changes in the formula by which Food Stamp benefits are calculated.

[6] Joe, p. 15.

[7] These changes are too numerous to list here, but among the most important legislated in October, 1981 were (1) the provision that stepparent income be included in AFDC household income; (2) that a 33-percent income disregard be applied after subtracting the standard deduction and allowances from earnings, instead of before; and (3) a smaller allowable deduction for child care.

[8] Most notable among the FY 1982-83 proposals is the provision requiring the income of unrelated persons living in the AFDC household be included in family income. Another important feature is the mandatory employment search.

[9] Joe, p. 15.

[10] For a critical review of the potential effects of welfare reform see Sheldon Danziger, Robert Haveman and Robert Poltnick, "How Income Transfer Programs Affect Work, Saving, and the Income Distribution: A Critical Review," *Journal of Economic Literature* (September 1981), pp. 975-1028.

[11] Edgar K. Browning and Jacqueline M. Browning, Public Finance and the Price System (New York: MacMillan Publishing Co., 1979), pp. 214-224.

[12] Joe, Appendix A.

[13] Joe p. 22.

[14] Martin S. Feldstein, ed., The American Economy in Transition (Chicago: University of Chicago Press, 1980).

[15] Certainly the effects of tax policy, monetary policy and the impact of the Social Security System would have to be taken into account in explaining how government policies may adversely affect our economic performance (see Feldstein).

THOMAS D. BIRCH is an instructor of economics at LSU, and GREGORY D. FINDLEY is a planning analyst for the Louisiana Department of Health and Human Resources. The views and opinions expressed in this article are those of the authors, and do not represent those of the Louisiana Department of Health and Human Resources or Louisiana State University. □

William G. Black

Louisiana Revenues and Expenditures: The Next Five Years

Louisiana's tax structure is not producing sufficient revenues to keep pace with either inflation or the state economy. In the face of negative economic trends, Louisiana government must address the tasks of achieving more efficient operation, program cutbacks, and design of a more responsive tax structure.

Louisiana's revenue sources are not generating sufficient dollars to keep pace with its annually-expanding costs for providing services to its citizens. This situation, until recently, existed paradoxically during a time when the State never seemed so wealthy, and resources exceeded all demands, like some constantly self-filling pitcher. Only in recent months have Louisianians begun to look around themselves and wonder where all the money went. The truth is that the boomtimes of petroleum-related windfalls appear to be behind us, and the people of Louisiana must address a future of greater financial contributions to well-planned and responsible governmental programs, or face the alternative of fewer government services.

The recent history of Louisiana revenue collections is one of high rates of revenue growth, due to either tax increases or oil-related windfalls, followed by a noticeable slowing of revenue growth. This pattern of revenue collections relates to a tax structure that, by itself, does not generate a growth in revenues sufficient to keep pace with inflation and the real growth of the Louisiana economy. To keep government operating at acceptable levels of service, periodic tax increases or windfalls have been required.

FIGURE I
LOUISIANA GENERAL FUND REVENUES
HISTORICAL AND PROJECTED
RATES OF GROWTH

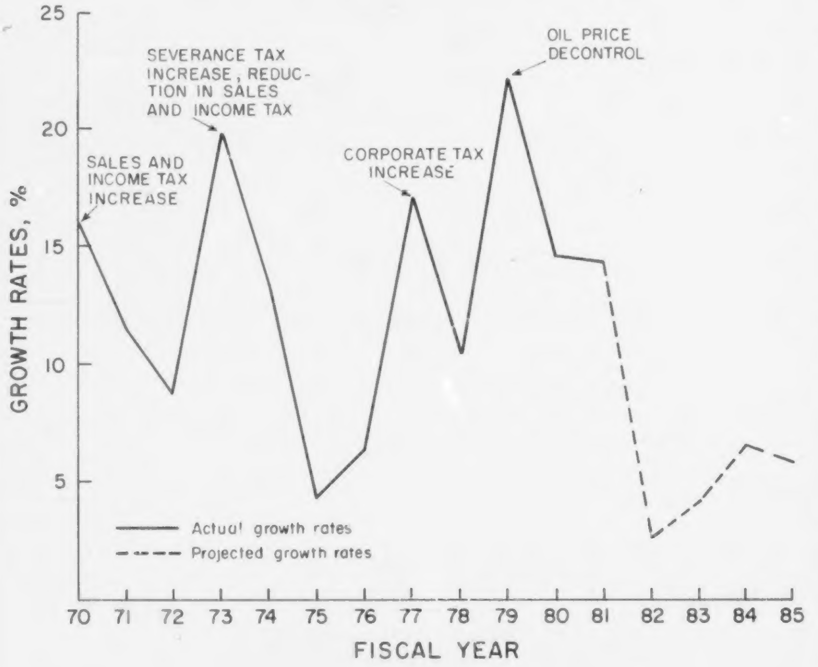
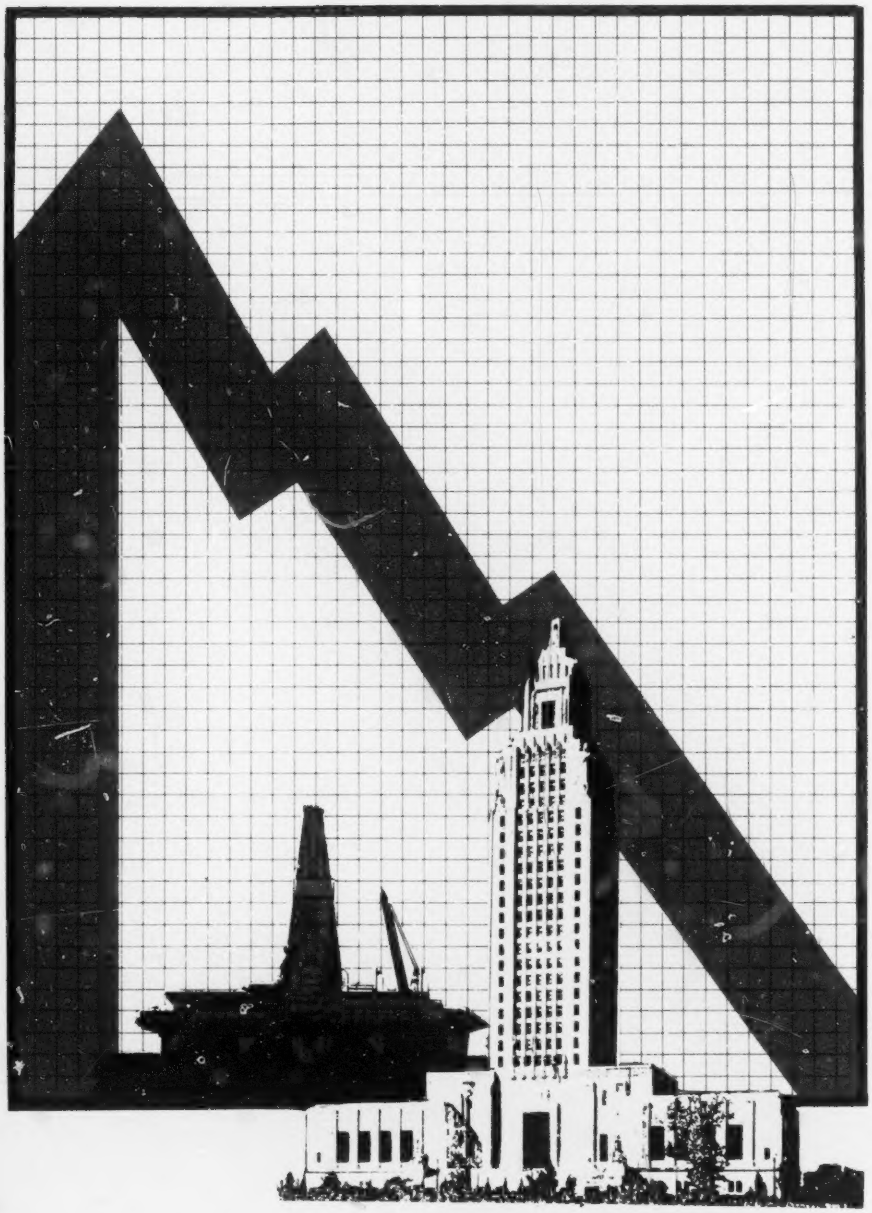


FIGURE I. LOUISIANA GENERAL FUND REVENUES HISTORICAL AND PROJECTED RATES OF GROWTH

TABLE I
Growth Rate Comparisons

Fiscal Year	State Revenues	State Expenditures	La. Personal Income
1977-78	15.9%	11.7%	15.0%
1978-79	9.6	7.2	14.6
1979-80	20.6	19.5	13.9
1980-81	12.1	16.6	13.1



For the past three years Louisiana has benefited greatly from oil decontrol. In fact, this windfall was substantial enough to allow a reduction in personal income taxes in 1980. However, increased revenues resulting from high oil prices have obscured the fundamental downward trend of state revenues.

From 1971 to 1982, state revenue growth averaged 12 percent, which exceeded the 7 percent average inflation rate during this period. As *Figure I* shows, however, year to year growth was somewhat sporadic. Between the years in which the tax changes had their full effect, revenue growth averaged only about 7.3 percent—only slightly better than inflation.

Low rates of growth during these years were the result of two factors. First, oil and gas production was declining. Severance taxes declined annually from fiscal 1974, the first full year in which oil severance taxes were collected on a value basis, until the rapid oil price increase in fiscal 1979. Secondly, many taxes respond only to real economic growth and not to inflation. These low growth rates acted as a drag on overall revenue growth.

Since 1976, recurring expenditures have increased at an average rate of 13.8 percent, while revenues grew at a rate of 14.6 percent.[1] The growth rates of revenues, expenditures and Louisiana personal income are compared for the last four fiscal years in *Table I*. Over the 10-year period, state revenues and personal income have grown at very nearly the same rates. State revenues increased at an average of 12.6 percent, while Louisiana personal income increased at an average of 12.2 percent. However, this was not the case on an annual basis. This near-equality windfall caused state revenues to grow at a substantially faster rate than personal income for one or two years. During the years in which no tax changes occurred, personal income growth exceeded growth in state revenues by as much as 5 to 10 percent.

A comparison of growth rates for Louisiana personal income and for state expenditures since 1976-77 indicates average expenditure growth has also been approximately equal to income growth. Again, however, this was not the case on a yearly basis.

Revenue Projections

The five-year forecasts developed in *Table II* were derived from an extension of the forecasting model used by the Legislative Fiscal Office.[2] Tax forecasting equations relating tax collections to either nominal or real changes in Louisiana personal income were applied to determine income elasticities for major taxes.[3] These elasticities, in turn, were used to estimate expected tax collections resulting from projected changes in state personal income. For oil and gas revenues, estimates were computed directly from price assumptions, production estimates and the relevant tax rates. Minor revenue sources were estimated by using less formal techniques.

As in most long-term forecasts, assumptions about key economic variables are critical to the analysis, the basic assumptions of which are summarized in *Table II*. Among the more important of these assumptions are oil prices, oil and gas production, inflation, real economic growth and state expenditure projections.

Oil price increases affect the State's revenues directly through severance taxes, royalties, rentals and bonuses; and indirectly through higher tax collections from income taxes, sales taxes and taxes on other economic activities.

The recent worldwide oil glut has demonstrated the classic problem faced by any cartel—enforcing output limitations during a time of reduced demand. It has also had a dramatic effect on crude oil prices in the world market and in Louisiana. These assumptions project no change from the current average price of $32/bbl during fiscal 1982-83, but anticipate a 4 percent annual increase in future years.[4] Such a forecast implicitly assumes that OPEC will be unable to keep inflation-adjusted prices at current official levels, but does not imply a complete breakdown of the cartel leading to competitive price cutting.

Oil and gas production also affect the state's revenue outlook, although not as dramatically as price changes. During the 1970's, oil and gas production was declining at annual rates of 8.2 percent and 5.8 percent, respectively. Price deregulation generated a new wave of exploratory activity during the 1979-81 period. While this new activity has not reversed the negative trend, it has lessened the rate of decline in both oil and gas production.

Production estimates for 1981-1982 suggest petroleum production is now declining at an annual rate of about 4 percent. Louisiana gas production appears to be falling by about

TABLE II
Summary of Assumptions for Five Year Projection

	Fiscal Year				
Item	**1982-83**	**1983-84**	**1984-85**	**1985-86**	**1986-87**
Louisiana Oil Prices (per barrel)	$ 32	$ 33.28	$ 34.65	$ 36.00	$ 37.43
Oil Production (millions of barrels)	197.00	193.00	189.00	185.00	182.00
Gas Production (trillion cubic feet)	2.23	2.16	2.10	2.04	1.97
Inflation (%)					
High	6.5	10.0	10.0	10.0	10.0
Low	6.5	5.0	5.0	5.0	5.0
Personal Income Real Growth (%)	4.0	4.0	6.0	4.6	4.6

TABLE III
Revenue Projections With Low Inflation
($Millions)

Tax Group I (Nominal Growth)	**1982-83**	**1983-84**	**1984-85**	**1985-86**	**1986-87**
Corporate Franchise	$ 105.4	$ 113.4	$ 123.8	$ 133.8	$ 144.6
Corporate Income	309.0	331.2	360.2	387.8	417.4
Personal Income	262.2	281.9	319.9	357.9	399.7
Sales, General	935.7	1,015.7	1,121.8	1,224.2	1,335.8
Sales, Motor Vehicle	113.4	123.9	137.8	151.4	166.2
Excise License	86.7	95.5	107.3	118.9	137.7
Others	219.7	234.8	260.6	285.6	313.1
Total Group I	2,032.1	2,196.4	2,431.4	2,659.6	2,914.5
Growth Rate (%)	—	8.4	10.7	9.4	9.4
Tax Group II (Real Growth Only)					
Alcohol Beverage	22.8	23.9	25.6	27.0	28.5
Beer	36.5	37.8	39.9	41.6	42.6
Tobacco	66.3	67.5	69.0	70.8	72.6
Gasoline	167.0	173.6	183.9	192.3	201.7
Special Fuels	26.7	27.7	29.4	30.7	32.3
Total Group II	319.3	330.5	347.8	362.4	377.7
Growth Rate (%)	—	3.5	5.2	4.2	4.2
Tax Group III (Oil and Gas)					
Severance	929.2	940.4	951.6	961.6	972.6
Royalties	431.4	441.4	446.2	450.7	455.7
Rentals	57.4	56.4	57.1	57.7	58.4
Bonuses	100.0	100.0	100.0	100.0	100.0
Total Group III	1,518.0	1,538.2	1,554.9	1,570.0	1,586.7
Growth Rate (%)	—	1.3	1.1	1.0	1.1
Miscellaneous Revenues					
Interest	168.5	140.0	140.0	140.0	140.0
Others	37.7	39.4	41.1	42.2	43.5
TOTAL REVENUE	$4,075.6	$4,244.5	$4,515.2	$4,774.2	$5,062.4
GROWTH RATE (%)	—	4.1	6.4	5.7	6.0

5 percent per year. For the next five years, oil production is expected to fall by 2 percent annually, while gas production is projected to decline at a 3 percent annual rate. These rates may be somewhat optimistic, but are believed to be reasonable, provided oil price uncertainty and the national recession do not continue very much longer.

Inflation also contributed to the high revenue growth rates during the late 1970s and early 1980s. Unlike oil price increases, however, inflation is a mixed blessing. The state collects more revenues because of rising prices and incomes, but it also suffers from faster growth in its expenditures.

The five-year projections of *Tables III and IV* incorporate low and high inflation assumptions of 5 percent and 10 percent, respectively. These projections provide convenient reference points for judging the impact of inflation on both collection of revenues and of expenditures.

TABLE IV
Revenue Projections With High Inflation
($Millions)

Tax Group 1 (Nominal & Real Growth)	**1982-83**	**1983-84**	**1984-85**	**1985-86**	**1986-87**
Corporate Franchise	$ 105.4	$ 117.8	$ 133.6	$ 150.0	$ 168.4
Corporate Income	309.0	327.9	362.1	397.1	429.8
Personal Income	262.2	313.9	402.8	460.1	549.6
Sales, General	935.7	1,060.1	1,221.3	1,390.7	1,583.6
Sales, Motor Vehicle	113.4	129.7	150.9	173.5	199.4
Excise License	86.7	100.3	118.4	137.8	160.4
Others	219.7	245.6	284.8	326.4	374.1
Total Group I	2,032.1	2,295.3	2,673.9	3,035.6	3,465.3
Growth Rate (%)	—	13.0	16.5	13.5	14.3
Tax Group II (Real Growth Only)					
Alcohol Beverage	22.8	23.9	25.6	27.0	28.5
Beer	36.5	37.8	39.9	41.6	42.6
Tobacco	66.3	67.5	69.0	70.8	72.6
Gasoline	167.0	173.6	183.9	192.3	201.7
Special Fuels	26.7	27.7	29.4	30.7	32.3
Total Group II	319.3	330.5	347.8	362.4	377.7
Growth Rate (%)	—	3.5	5.2	4.2	4.2
Tax Group III (Oil and Gas)					
Severance	929.2	940.4	951.6	961.6	972.6
Royalties	431.4	441.4	446.2	450.7	455.7
Rentals	57.4	56.4	57.1	57.7	58.4
Bonuses	100.0	100.0	100.0	100.0	100.0
Total Group III	1,518.0	1,538.2	1,554.9	1,570.0	1,586.7
Growth Rate (%)	—	1.3	1.1	1.0	1.1
Miscellaneous Revenues					
Interest	168.5	210.0	210.0	210.0	210.0
Others	37.7	39.4	41.1	42.2	43.5
TOTAL REVENUE	$4,075.6	$4,413.4	$4,827.7	$5,220.2	$5,683.2
GROWTH RATE (%)	–	8.2	9.3	8.1	8.8

A third factor affecting revenue growth is the rate of *real growth* of the Louisiana economy. When inflation and real growth occur simultaneously, the impact on value-based taxes is cumulative. Moreover, for volume-based levies such as the gasoline, special fuels, alcohol and tobacco taxes, real economic growth is the primary factor affecting tax collections. Inflation will have an indirect impact on volume-based tax levies only if, hidden in the inflation, such as a shift to more fuel-efficient automobiles.

A review of the Louisiana economy shows real personal income growth averaged 4.6 percent between 1970 and 1980. This performance was better than the national average; however, the state's economic performance experienced considerable variation as the national economy improved or declined. To accommodate this cyclical pattern, the growth rates of the three "upswing years" for each of the last two business cycles were related to the overall growth for the three-year period. In these cycles, the Louisiana economy responded slowly to national economic recovery in the first two years, but expanded rapidly by the third year of the cyclical upswing. Using 1982-83 as the base year of the recovery, the projected growth rates for 1983-84 and 1984-85 reflect this pattern. Growth rates for 1985-86 and 1986-87 are projected at historical averages, because the peak growth of the economic cycle is never sustained.

Revenue projections incorporating these assumptions are reflected in *Tables III and IV*. Also included are other miscellaneous revenue sources which do not respond directly to inflation or real growth. The most significant of these is interest income earned by the state on short-term investments. For 1982-83, interest rates were projected at 11.5 percent. The average investment portfolio throughout this period is projected at $1.5 billion. It is assumed that interest rates after 1982-83 average four percent above the inflation rate.

Expenditure Projections

Expenditures that respond to real growth and inflation represent the bulk of the state's recurring costs. These include General Fund appropriations for operation of various departments, transfers to local government units or individuals and the operation of vocational-technical schools and the higher educational system *(Tables V and VI)*.

Debt service has also expanded at rates similar to nominal growth, although growth of this item can be controlled by decisions regarding new bond-financed capital outlay. Since this survey is confined to operating expenses, it is assumed in these projections that debt service will not increase in the future. To project state expenditures, it is assumed program expenditures *will increase at the same rate as personal income*. Thus, if personal income grows by 10 percent, the state will increase expenditures for government services at an equal rate. This concept assumes expenditures grow at a rate equal to the sum of inflation and real economic growth. Inflationary increases account for providing the same amount of services at higher prices; the real growth rate adjusts expenditures to reflect growth of both population and economic activity. Projecting program expenditure growth as being equal to personal income growth also corresponds closely to historical practice.[5]

Some expenses do not respond to overall growth of personal income. Certain expenditure requirements (e.g., severance taxes returned to parishes) have absolute dollar limits which effectively keep the cost constant from year to year. Other costs are tied to volume taxes, and therefore increase in relation to real growth. Still others, such as the LIFE Fund[6] or Royalty Road Fund relate more to oil and gas prices than to growth.

A major expense category, not included in these projections, is cash outlay programs. Strictly speaking, capital outlay is not a part of ordinary government operations. Moreover, Louisiana capital expenditure has frequently been financed by a current or previous surplus of state revenues. Since capital expenditure can be adjusted to fit the size of any available surplus, it has *not* been included in the expenditures shown in these projections.

TABLE V
Expenditure Projections For Low Inflation
($Millions)

	1982-83*	**1983-84**	**1984-85**	**1985-86**	**1986-87**
General Appropriations and Other Recurring Government Expense	$3,550.1	$3,869.6	$4,295.3	$4,707.6	$5,159.5
Constitutional and Statutory Requirements**	465.8	470.5	475.0	479.9	484.5
LIFE Fund	88.9	61.4	37.7	11.9	0
Total Recurring Expenditure	$4,104.8	$4,401.5	$4,808.0	$5,199.4	$5,644.0

General appropriations are projected at a level sufficient to keep government expenditure at the same percentage of personal income over time. See Table II for a Summary of Assumptions.

*Values for 1982-83 are based on Current Fiscal Office estimates and 1982-83 Appropriations Bill as signed by the Governor.

**Because most items in this category grow very slowly absent changes in policy, a growth rate of only 1% is assumed. This assumption means that *there is no net increase in debt service cost* over 1982-83 levels.

TABLE VI
Expenditure Projections With High Inflation
($Millions)

	1982-83*	**1983-84**	**1984-85**	**1985-86**	**1986-87**
General Appropriations and Other Recurring Government Expense	$3,550.1	$4,047.1	$4,694.8	$5,380.1	$6,165.6
Constitutional and Statutory Requirements**	465.8	470.5	475.0	479.9	484.1
LIFE Fund	88.9	61.4	6.1	0	0
Total Recurring Expenditure	$4,104.8	$4,579.0	$5,175.9	$5,860.0	$6,649.7

General appropriations are projected at a level sufficient to keep government expenditure at the same percentage of personal income over time. See Table II for a Summary of Assumptions.

*Values for 1982-83 are based on Current Fiscal Office estimates and 1982-83 Appropriations Bill as signed by the Governor.

**Because most items in this category grow very slowly absent changes in policy, a growth rate of only 1% is assumed. This assumption means that *there is no net increase in debt service cost* over 1982-83 levels.

Analysis and Conclusions

Tables VII and VIII compare total revenues and expenditures under the two inflation assumptions. These tables indicate that without either tax increases or new oil windfalls, state government cannot continue to provide the same level of expenditures relative to personal income that it provides today. Although the taxes in Group I grow at rates adequate to

TABLE VII
Recurring Revenues and Expenditures With Low Inflation
($Millions)

	1982-83	1983-84	1984-85	1985-86	1986-87
1. Revenue	$4,075.6	$4,244.9	$4,517.9	$4,777.1	$5,060.1
2. Expenditures	4,104.8	4,401.5	4,808.0	5,199.4	5,644.0
3. Surplus (Deficit)	(29.2)	(156.6)	(290.1)	(422.3)	(583.9)

See Table II for basic assumptions.

TABLE VIII
Recurring Revenues and Expenditures With High Inflation
($Millions)

	1982-83	1983-84	1984-85	1985-86	1986-87
1. Revenue	$4,075.6	$4,413.5	$4,791.8	$5,220.2	$5,682.1
2. Expenditures	4,104.8	4,579.0	5,175.9	5,860.0	6,649.7
3. Surplus (Deficit)	(29.2)	(165.5)	(384.1)	(639.8)	(967.6)

See Table II for basic assumptions.

fund projected expenditure increases, the growth of tax revenues in *Groups II and III* fall short of the needed growth rates. As a result, overall revenue growth rates are 2 to 4 percent below the annual rate of expenditure increases.

It is also clear from these tables that inflation is not helpful in balancing the budget, since inflation causes expenditures to increase faster than revenues. Almost all of the state's expenditures are affected by inflation, whereas only about one-half of the state's revenue sources directly respond to inflation. It is notable that those taxes that respond to inflationary increases (e.g., sales and income in Group I) actually increase more than the projected growth of expenditures. This occurs because several of these taxes are very sensitive to changes in personal income (either real or inflationary). Personal income taxes, because of the progressive tax scale, actually grow faster than personal income increases.

These projections do not estimate the exact amounts of the state's revenue and expenditures for future years. They provide only an approximate picture of the state's fiscal status over the next five years, assuming there will be no major economic changes, no major changes in the tax structure, nor any changes in the level of government services. However, the fact that each projection reflects the same trend allows the following five meaningful and important conclusions to be drawn:

1. The state's revenue structure, without periodic tax changes or windfall gains, cannot generate revenues required to supply a constant real level of state services;
2. The deregulation windfall of 1979-80 will soon be depleted, barring a new increase in the price of oil, while recurring budget surpluses generated by this windfall will soon be nonexistent;
3. A decline in continuing government services as a percentage of state personal income will occur in 1983-84, unless the basic tax structure is altered, new taxes are added, or a new oil windfall occurs;
4. Traditional surpluses that have been available to finance the cash portions of the capital outlay bills will be significantly reduced; and,
5. While a significant effort is needed to identify state programs that can be eliminated, cut back, or operated more efficiently, long-term revenue problems can be resolved only by changes that make the tax structure more responsive to the same factors that affect the bulk of the state's operating expenditures—inflation and real growth.

---

[1] Constitutional and budgeting changes make pre-1976 expenditure data incompatible with post-1976 expenditure data. Hence only expenditures from fiscal 1977 through fiscal 1982 are analyzed.

[2] The model was developed by Dr. James A. Richardson of LSU, and used to develop the Legislative Fiscal Office revenue forecast for 1982-83.

[3] An income elasticity is the percentage change in tax revenues given a 1 percent change in income.

[4] The $32/bbl price approximates the effective tax price after various adjustments are made. In practice, this price is usually very close to the "posted price" or price that refineries will pay for non-contract crude oil. More optimistic assumptions about oil prices were also tested, using $33/bbl in 1982-83 and increases equal to the inflation rate; however, the net increase in revenues was insufficient to alter the projected trends.

[5] This assumption need not imply that all state services increase at the same rate. Changing priorities may mean that some services grow rapidly while other decline.

[6] The Louisiana Investment Fund for Enhancement (LIFE) was established in 1981 to preserve a portion of oil revenue windfalls for future generations. The relevant statutes provided a formula in which oil price increases would increase LIFE deposits, while inflation would reduce the windfall going to this fund.

WILLIAM G. BLACK is a legislative economist with the Louisiana Legislative Fiscal Office at Baton Rouge. He wishes to acknowledge Dr. James A. Richardson of the LSU Department of Economics for "his invaluable advice" for both this paper and a more comprehensive version presented to the Louisiana Joint Legislative Committee on the Budget in September.

□

BOOK CORNER

Economics in Plain English

Economics Explained by Robert Heilbroner and Lester Thurow (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1982), 256 pp., $12.95 (hardcover).

Economists Robert Heilbroner of the New School for Social Research and Lester Thurow of MIT's Sloan School of Management wrote *Economics Explained* in the belief that many people "want to understand the nature of the economic forces that are upsetting their lives." Their book is different from other economics books for the general reader, however, in that it lays out the groundwork of economic theory prior to delving into problems such as inflation and unemployment. The general format of the book is similar to many standard economics textbooks, but Heilbroner and Thurow succeed in making it easier to read and substantially more candid and thought-provoking than any textbook.

Part I of the book introduces the capitalist system—how it evolved and where it now stands. In Part II the authors discuss the big economic picture—the large flows of household savings, business investment, and government spending. This setting lays the groundwork for their discussions of how money works, what causes inflation, and why American productivity is lower today than that of most other advanced nations. Part III deals with the individual parts of the big picture—the determination of prices in individual markets and how markets sometimes fail. Topics in international economics ranging from the meaning and consequences of a falling dollar to the activities of multinational firms are examined in Part IV. The concluding chapter is a stimulating analysis of where the major world economies are heading.

The authors do an admirable job of advancing different, often controversial, solutions to our economic woes rather than simply advancing their preferred solution. Despite the necessity for simplifications in the book, the theme that "there are no simple solutions to these economic and political challenges" is stressed. While *Economics Explained* may be especially appealing to members of the business community and decision makers in government, the book achieves its goal of reaching out to any individual with a healthy curiosity about how the economic world functions.

—Adrienne McElwain

Taxes, Reaganomics, and The Economy: A Selection of Recent U.S. Government Publications

- U.S., Congress, Joint Economic Committee, *Economic Analysis of the Reagan Program for Economic Recovery* (Washington, D.C.: U.S. Government Printing Office, 1982), 33pp., $2.50 (stock no. 052-070-05574-0).

Prepared for the U.S. Congress's Joint Economic Committee, this staff study analyzes the Reagan Administration's economic recovery program which is intended to include the long-run effects of (1) increases in employment real output, real wages, real savings, and real investment; (2) a reduction in money demand; (3) a reduction in nominal interest rates; and (4) a reduction in the price level. An interesting comparison of the Reagan economic program with that of the Kennedy administration is included.

- U.S., Congress, Budget Office, *Prospects for Economic Recovery* (Washington, D.C.: U.S. Government Printing Office, 1982), 120 pp., $6.00 (stock no. 052-070-05676-2).

Economic and budget projections from the Congressional Budget Office and the Office of the President are discussed. Individual chapters review recent economic developments, federal monetary and fiscal policy, short-range (1982-1983) and long-range (1984-1986) forecasts, impediments to economic growth, and the economic effects of federal budget deficits.

- U.S., Congress, Joint Economic Committee, *Regional and Urban Impacts of the Administration's Budget and Tax Proposals, A Study* (Washington, D.C.: U.S. Government Printing Office 1981), 117 pp., $4.50 (stock no. 052-070-05617-7).

Prepared by Marshal Kaplan, this study evaluates the impact of President Reagan's budget and tax proposals on U.S. cities by examining the seven case studies that were conducted in Albuquerque, Baltimore, Boston, Dallas, Denver, Detroit, and Milwaukee.

- U.S., Internal Revenue Service, *Tax Haven Information Book* (Washington, D.C.: Author, 1982), 124 pp., not for sale, but available for use in most federal depository libraries.

Prepared for use of IRS agents, this publication discusses the tax haven status of twenty-eight foreign countries. A variety of information of interest to investors is provided. The publication concentrates on the availability of information about business and legal involvement in each country.

- *Taxes and Taxation* Washington, D.C.: U.S. Government Printing Office, 1981), 16 pp., free (stock no. 021-195-00111-8).

A bibliography of tax-related pub-

RESEARCH NOTES

lications available for sale by the U.S. Government Printing Office.

- U.S., Congress, Budget Office, *The Tax Treatment of Homeownership: Issues and Options* (Washington, D.C.: U.S. Government Printing Office, 1981), 97 pp., $5.50 (stock no. 052-070-05641-0).

This document includes a discussion of the tax benefits available to homeowners resulting from current federal tax laws. Prepared by the Congressional Budget Office, the publication presents possible tax changes and their effects on the federal tax system, housing supply, and the American homeowner. One of the most interesting potential changes mentioned would provide an income tax deduction for renters.

- U.S., Congress, Joint Economic Committee, *Simulation of the Economic Impact of Tax Exempt Home Mortgage Savings Accounts: A Staff Study* (Washington, D.C.: U.S. Government Printing Office, 1981), 12 pp., $2.25 (stock no. 052-070-05589-8).

Using the Wharton Econometric Model, this study evaluates the micro-economic impact of a proposed change in the savings incentives available to the residential mortgage industry. The simulation excludes taxes on interest earned on home mortgage-dedicated savings accounts. The report concludes that the tax exclusion embodied in the proposal would provide a boom for the housing industry.

—Milt Ternberg

ADRIENNE McELWAIN is an assistant professor of economics at LSU, and a specialist in the areas of industrial organization and econometrics.

MILT TERNBERG is the business librarian at LSU's Middleton Library and a regular contributor to this column.

Material Requirements Planning Developed by LSU Researcher

Research on the "*Effects of Varying the Update Interval on Material Requirements Planning*," is being conducted by assistant professor **Avijit Banerjee** of the Quantitative Business Analysis Department through a series of simulation experiments aimed at improving production scheduling and inventory control.

Material requirements planning (MRP) is a technique for inventory control used in discrete, multistage, multiproduce production systems. In such systems the various inventory items (e.g., raw materials, purchased parts and finished products) are arranged in a hierarchy consisting of several levels. Due to the environmental uncertainties, discrete production batches, and the structures of the various products, the demands or requirements of the items at the lower levels of this inventory hierarchy exhibit irregular "lumpy" patterns that are difficult, if not impossible, to describe in terms of known probability distributions. For this reason traditional inventory control methods are not applicable for such items, and MRP has been suggested as a more effective alternative.

Requirements plans for the manufacture and purchase of the inventory items resulting from an MRP process can be kept current in two different ways. One method completely revises and updates all plans periodically, resulting in what is known as regenerative MRP systems. Net change MRP, on the other hand, is essentially an on-line system where only changes and transactions are entered whenever they occur and the plans for only the affected items are updated. Banerjee's study is concerned primarily with the update interval of regenerative MRP processes.

Recent research in this area has largely emphasized the issue of lot sizing for "lumpy" demand items and a number of dynamic lot sizing algorithms, attempting to minimize inventory-related costs, have been developed. One major problem resulting from such algorithms is system "nervousness." What happens is that a relatively small change in the demand for a final product can lead to large amounts of rescheduling at lower levels of the product structure. This can occur every time the system is regenerated since the lot-sizing algorithm in use recomputes the schedule over the entire planning horizon. Thus, frequent rescheduling from excessive nervousness can seriously disrupt smooth operation of the system.

It is suggested that the ill effects of nervousness can, at least to some extent, be overcome by increasing the update interval of the planning process. But doing so may render the system less sensitive to changes and transactions that occur between regenerations and reduce its capacity to cope with environmental uncertainties. In other words, there is a distinct tradeoff between the costs of nervousness and providing customer service. Moreover, the effects of reduced nervousness on a number of other key performance criteria, such as average inventory levels, number of production setups and purchase orders, etc. are unknown at this time. Thus, the important design issue of selecting an appropriate update interval for an MRP system is the major focus of this investigation.

The objectives of this study are being pursued through a computer simulation model of a multistage, multiproduct production system, due to the difficulties encountered in the analytical modeling of such complex systems. The observed effects of varying the MRP regeneration interval on system nervousness and other performance measures under different environmental conditions obtained from the simulation experiments are analyzed carefully. Finally, attempts are made in recommending to decision makers the proper use of the update interval as a controllable variable in the effective design of MRP systems.

□

Joseph H. Martini and W. Robert Smith, Jr.

Recent changes in U.S. tax laws have brought with them many opportunities and challenges for taxpayers who wish to lower their tax bills. Proper tax planning is necessary for individuals to make the most of these new opportunities to avoid pitfalls. This article is a guide to those desiring to formulate such plans of tax-reduction.

Much has been discussed about the federal Economic Recovery Tax Act of 1981 (ERTA) and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Changes in tax laws often require action by taxpayers to take advantage of the new laws and any opportunities for tax minimization. Proper planning, while not guaranteeing tax minimization, increases the chance that any required action will be taken at the appropriate time and in a manner consistent with a taxpayer's long-range strategy for lowering taxes. A sufficiently flexible plan also allows alteration of planned action, should future legislation provide new opportunities.

The purpose of this discussion is to provide a general approach to tax planning, with emphasis on recent changes in the law. No single plan can be recommended for all taxpayers, since non-tax considerations often out-weigh the desire for tax reduction. In addition, the composition of assets, income and other items may affect the plan. However, since all taxpayers are subject to the same tax laws, a general knowledge of them, including the recently enacted provisions, should aid in formulating a plan.

The Planning Process

One of the first steps in the planning process is to identify potential areas of tax reduction. This requires some knowledge of the applicable tax laws and the transactions to which they apply. A good way to begin the process is to estimate the amount and nature of all income and deductions for the current, and, to the extent possible, future years. Each item then can be examined to determine if some tax planning technique can be applied to reduce taxes.

Tax planners use two primary concepts in examining a taxpayer's financial picture—restructuring and deferral. Some transactions may be structured in different ways, with each way producing substantially the same result from a non-tax standpoint; however, from a tax perspective, each could have widely varying tax consequences. Professional tax advice, therefore, is usually appropriate *before* a transaction is completed, if the taxpayer is not aware of all alternatives. Undesirable tax consequences are frequently unavoidable after action has been taken by a taxpayer.

The second major concept used by tax planners, tax deferral, recognizes individuals are generally better off paying taxes in a later year than in the current year, because of the time value of money. This is not true in all cases, however, and one should be careful not to take actions resulting in short-term benefit, to the detriment of the individual's total financial position.

For example, deferring income into a subsequent year may not be beneficial, if the taxpayer is in a higher tax bracket in later years. One might be better off by paying the tax in the current year, when taxable income is low. This example illustrates the importance of comprehensive tax planning, instead of a transaction-by-transaction approach.

Deferral of Taxes

Tax deferral will be particularly important in 1982 and subsequent years. The ERTA reduced tax rates by approximately 23 percent over a four-year period. This means a taxpayer able to defer his taxes could realize a *permanent* tax savings. That is, not only would the taxpayer have the use of money that otherwise currently would be used to pay taxes, but the amount of tax, when finally paid, would be lower. After 1984 tax rates will be adjusted for inflation.

Most taxpayers use the cash method of accounting, in which income generally is recognized in the year received, and expenses are deducted in the year paid. This method allows a taxpayer flexibility in controlling tax liability to the extent he can control the timing of income receipts and expense payments. Some items of income, such as rent and fees for services, may be deferred by delaying the billing of these items.

The timing of payment for deductible expenses is often important. Many expenses can be prepaid in years for which a lower taxable income is sought. For example, early payment of the final installment of a taxpayer's state income tax shifts federal tax liability to a later year. Other expenses are subjected to certain limitations, or minimum amounts before they are allowed as deductions. For example, deductions for contributions to a public charity cannot exceed 50 percent of adjusted gross income. Medical expenses are deductible in 1982 only to the extent they exceed 3 percent of adjusted gross income.

TEFRA raised, however, the floor on medical expenses to 5 percent after 1982. Because of this change, proper timing of payment for medical expenses may increase the resulting tax benefit. If medical expenses are likely to reach the 3 percent floor in 1982, all medical expenses should then be paid (or prepaid) in 1982. Waiting to pay these bills until 1983 may result in a loss of their deductibility, since the deduction floor will be higher then.

Another method of deferring taxes is the installment sales method of reporting gain on the sale of property. In general, this method of reporting income may be used if property is disposed of in a transaction deferring receipt of some sales proceeds until after the close of the taxable year. This general rule does not apply to inventory and other property held by dealers.

Tax Shelters

A tax shelter, generally, is an in-

Tax Planning in Light of Recent Legal Changes

THE UNITED STATES OF
ONE DOLLAR

vestment structured to take advantage of benefits available under the tax law. ERTA and TEFRA include provisions that will affect the attractiveness of some tax-sheltered investments.

Most tax-sheltered investments provide substantial current deductions that offset ordinary income from other sources. This causes a deferral of tax liability. In some cases, any income generated by the investment is eventually taxed at capital-gain rates, or at a time when the taxpayer is in a lower tax bracket.

Tax shelters should be evaluated in the same way as any other investment. The investment should be economically sound in light of the risks and potential rewards. Most tax-sheltered investments are long-term, and not readily marketable.

Real estate shelters were a principal beneficiary of ERTA. A 15-year write-off, at accelerated rates, was provided for real estate under the Accelerated Cost Recovery System (ACRS). This new depreciation system, together with liberalized investment credit provisions and increased tax credits for rehabilitation expenditures, created new opportunities for tax-sheltered investments.

ACRS benefits have been reduced substantially by TEFRA. After 1982, taxpayers are required to reduce the basis of depreciable assets by one-half the amount of the regular and energy investment tax credits (including the credit for certified historic structures).

This lower basis must be used to compute depreciation deductions, and to determine gain or loss when the asset is sold. A 2 percent investment credit reduction may be elected, in lieu of making this basis adjustment. In addition to these changes for depreci-

CHANGES IN THE UNIFIED CREDIT

YEAR OF DEATH	UNIFIED CREDIT	SIZE OF ESTATE EXEMPT FROM TAX
1981	$ 47,000	$175,625
1982	62,800	225,000
1983	79,300	275,000
1984	96,300	325,000
1985	121,800	400,000
1986	155,800	500,000
1987 and thereafter	192,800	600,000

Exhibit 1

CHANGES IN THE RATE OF TAX FOR GIFTS AND ESTATES

FOR DECENDENTS DYING AND GIFTS MADE IN	THE MAXIMUM RATE WILL BE
1982	65% for transfers in excess of $4,000,000
1983	60% for transfers in excess of $3,500,000
1984	55% for transfers in excess of $3,000,000
1985 and thereafter	50% for transfers in excess of $2,500,000

Exhibit 2

able property, TEFRA repeals the further acceleration of ACRS rates for some classes of property that were to be applied to property placed in service after 1984.

One tax-shelter-limiting provision of ERTA was the extension of the at-risk rules to investment credit benefits. The at-risk rules generally act to limit any personal liability assumed by the investor. Thus, taxpayers are not able to take the investment credit on property purchased with nonrecourse debt. The at-risk rules do not apply to real estate ventures.

The Internal Revenue Service has intensified its programs of examining tax shelters, and is aggressively attacking many so-called abusive shelters. Taxpayers should seek professional tax advice to evaluate the risks associated with specific tax-sheltered investments.

Capital Gain and Loss Planning

The discussion here will focus on security transactions, but the principles discussed apply to other assets, such as real estate held as an investment, as well. Capital gains and losses may be either long- or short-term. Generally, an asset must be held for more than one year to qualify for long-term treatment. Net long-term capital gains qualify for an exclusion of 60 percent of the excess of long-term capital gains over short-term capital losses. With the prior increase in the capital gain exclusion from 50 to 60 percent, many investors may benefit from a change in investment strategy to emphasize asset appreciation, rather than investment yield.

Up to $3,000 of a net loss is deductible in the current year. The remaining loss can be carried over to subsequent years. In addition, a net, long-term loss reduces taxable income on a two-for-one basis. For example, $6,000 of long-term capital loss would reduce taxable income by only $3,000. Note that long-term losses are most advantageously used against short-term gains, but first must be used to reduce any long-term gains. A desire to efficiently utilize losses may not be consistent with market judgment. For example, a portfolio may contain securities with unrealized losses that could be sold to reduce taxes, but the taxpayer may wish to hold the securities for investment reasons. Taxpayers should be aware, however, that a sale at a loss with a subsequent purchase of essential identical securities within 30 days would result in a *wash sale*, and no deduction for the loss would be allowed. There are ways of accomplishing both goals. One is to sell the securities at a loss and purchase similar, but not identical, securities in the same industry; another is to sell the securities and repurchase them after 30 days.

Estate and Gift Tax Changes

Recent changes in the estate and gift provisions will require individuals to change or revise their current estate planning strategies. Some of the more important changes are discussed below.

ERTA provided for an increase in the unified gift and state tax credit and the estate tax filing requirements to reflect the increased unified credit *(Exhibit 1)* This increase in the size of the unified credit, together with other changes in the law, results in an estate and gift tax system which allows large amounts of property to be transferred between individuals, free of any tax.

ERTA also reduced the maximum unified estate and gift rate from 70 percent to 50 percent over a four-year period *(Exhibit 2)*. This means that if any part of an estate or gift is taxed, the tax rate will be lower than before ERTA was enacted.

For all transfers by gift or inheritance after 1981, the monetary ceiling on the gift and estate tax marital deduction has been eliminated. This means unlimited amounts of property can be transferred between spouses, free of gift or estate taxes. One point of particular importance to Louisianians is that ERTA removed the provisions of the prior law barring gift and estate marital deductions for transfers of community property between spouses.

Substantial changes in the gift and estate tax provisions mean all current wills should be reviewed to see how they are affected. In many cases, simple "his and her" wills may now be advisable because of the higher credits and unlimited marital deduction. Planning for effective utilization of the unified credit, and providing for educational and other needs of children after the death of one spouse, however, could require more complex wills.

Another significant provision in ERTA increased the gift tax annual exclusion to $10,000 per donee, and stipulated that payment of school tuition or medical care is not treated as a gift. Spouses may elect to split gifts for a total of $20,000 annual exclusion per donee. This provision can be used to further reduce the amount of an estate subjected to taxation.

A detailed discussion of all areas affected by ERTA and TEFRA is beyond the scope of this duscussion; therefore, the following is a summary of many of the provisions which changed the prior law. These changes should be considered by taxpayers as they develop tax-reduction plans.

Rate Changes

Individual income tax rates will be reduced by some 23 percent, phased in over a four-year period.

The top tax bracket will drop from 70 percent to 50 percent, beginning in 1982. This reduction eliminates the max-tax computation after 1981.

Individual income tax brackets, personal exemptions and zero bracket amounts will be indexed to prevent inflation-created taxes. Indexing will begin after 1984, and will be adjusted for inflation.

A maximum 20 percent rate for sales or exchanges, will apply to long-term capital gains after June 9, 1981.

Itemized Deductions

Medical expenses may be deducted only to the extent they exceed 5 percent of adjusted gross income, beginning in 1983. Under prior law, medical expenses had to exceed 3 percent. Also, one-half of all medical premiums paid, up to $150, will no longer be deductible without regard to the percentage floor. In 1984, the present separate 1 percent floor on drugs will be eliminated.

Taxpayers can deduct personal casualty and theft losses, after 1982, only to the extent that each loss exceeds $100, and the sum of these losses (as reduced by the $100) exceeds 10 percent of adjusted gross income. No floor exists under present law.

Non-itemizers will be able to deduct charitable contributions. The gradual phase-in of this allowance begins in 1982.

Compliance Provisions

Taxes will be withheld on dividends and interest payments made after June 30, 1983. The withholding rate will be a flat 10 percent.

Interest and penalty rates will be redetermined each September at 100 percent of the average predominant prime rate. This rate will be effective for the following calendar year.

Sales and Exchanges

Taxpayers have two years, before and after the sale and exchange of residences, to replace the residence and defer recognition of, or rollover, any gain on the sale. In addition, qualified taxpayers more than 55 years of age may elect to exclude $125,000 of the gain on the sale of a personal residence.

A new incentive stock option allows an employee to avoid current income at the time of exercise and to obtain long-term capital gain on the sale of the option stock. In some situations, previously issued options may qualify for the new treatment.

Deductions for losses from regulated futures contract straddles, as well as other straddles, have been severely limited.

Gross Income

Married couples filing joint returns are allowed a deduction from gross income equal to 10 percent (5 percent for 1982) of the lesser of $30,000, or the earned income of the spouse with the lower earned income.

Beginning in 1982, U.S. citizens abroad, who meet certain residency requirements, may elect to exclude up to $75,000 of foreign earned income. This amount is increased by $5,000 per year over the next four years to a maximum of $95,000 in 1986. In addition, housing expenses over a base amount can be deducted or excluded from income.

Employer-provided expenses for dependent care assistance under a written non-discriminatory plan will be excluded from an employee's gross income, beginning in 1982.

Interest and Dividends

Savings certificates (purchased after September 30, 1981 and before January 1, 1983) may qualify for a $1,000 ($2,000 on a joint return) lifetime interest exclusion.

The $200 ($400 on a joint return) dividend and interest exclusion was repealed after 1981, and replaced by a $100 ($200 joint) dividend exclusion. A maximum net interest exclusion of $450 ($900 on a joint return) also begins in 1985.

Business Provisions

Qualified public utilities are allowed to establish dividend reinvestment plans. Qualified shareholders may elect to exclude $750 a year ($1,500 on a joint return) of dividends reinvested, effective for calendar years 1982 through 1985.

In the case of corporate shareholders, partial liquidations have been eliminated. All distributions to corporate shareholders are to be tested for exchange treatment at the shareholder level under the redemption provisions. For noncorporate shareholders, the concept of a partial liquidation is re-

HIGHLIGHTS OF RECENT CHANGES

Repeal of portions of the accelerated cost recovery system

More taxpayer compliance provisions

Cutbacks in individual deductions

Liberalized pension provisions for some individuals but more stringent requirements for many businesses

Changes in the way the Investment Credit affects deductions under ACRS

Leasing provisions curtailed

Corporate reorganization laws changed

tained, with some modification. Substantial changes also have been made in other areas of the corporate reorganization laws.

TEFRA provides a 15 percent reduction in eight corporate tax preferences. It also adjusts the corporate miminum tax to prevent the combination of the corporate minimum tax and the 15 percent cutback from reducing the tax benefit at the margin for taxpayers now subject to the minimum tax. This is done by subjecting only 71.6 percent of certain preferences to the minimum tax.

To avoid an underpayment of estimated taxes after 1982, corporations must pay 90 percent of their estimated tax liabilities, instead of the present 80 percent. Some exceptions to the estimated tax payment requirements have been repealed.

Safe-harbor leasing is curtailed significantly, and repealed after 1983. Traditional leasing will be liberalized, beginning in 1984.

Corporations must begin in 1983 to capitalize and amortize construction period interest and taxes for nonresidential real property. In addition, the Treasury has been directed to modify its regulations restricting the use of the completed contract method of accounting.

New Windfall Profit Tax Rules provide for a gradual reduction in tax on newly discovered oil; an independent producer's stripper oil exemption after 1982; and an increase in the 1981 royalty-owner credit from $1,000 to $2,500, with two-barrels-per-day exemption after 1981 (three-barrels-per-day in 1985).

Pensions and Annuities

A partial roll-over of an individual retirement account (IRA) will qualify for tax-free treatment after 1982. Under prior law, an individual retirement could be rolled-over to another IRA only if the entire IRA was rolled-over.

The IRA provisions have been greatly liberalized, allowing a maximum $2,000 ($2,250 for a spousal IRA) contribution, and permitting deductible contributions by individuals already covered by a qualified retirement plan.

Keogh plan *(H.R. 10)* contributions have been increased to the lesser of either 15 percent of earned income, or $15,000 (up from $7,500). The same increases apply to contributions to a simplified employee pension plan (SEP).

TEFRA will change the overall limits on contributions and benefits available for an employee under qualified pension plans, beginning in 1983. For defined contribution plans, the maximum dollar limit on annual employer additions for an employee will decrease from $45,475 to $30,000; the 25-percent-of-compensation limit will be retained. For defined benefit plans, the maximum dollar limit on employer-derived annual benefits shall decrease from $136,425 to $90,000; the 100-percent-of-compensation limit will be retained. The act also attempts to narrow the gap between corporate and self-employed plans, and further restricts loan transactions.

Other

Estate and gift tax laws are substantially changed, being generally effective for decedents dying, and gifts made, since 1981.

The freeze on issuance of IRS regulations in the fringe benefit area, which was due to expire on May 31, 1981, has been extended through December 31, 1983.

The 15 percent "add-on" minimum tax for individuals has been repealed for tax years starting in 1983. Concurrently, the base of the alternative minimum tax, which is paid only if it exceeds an individual's regular tax, will be expanded. This tax is imposed at a rate of 20 percent on minimum taxable income in excess of a statutory exemption of $30,000 ($40,000 for joint returns).

The child care credit available to working spouses was increased, beginning in 1982.

The $100 threshold exemption from filing individual estimated tax payments has been increased $100 a year to a maximum of $500 over a four-year period, beginning in 1982.

Recent changes in U.S. tax laws present opportunities and challenges for individuals seeking to reduce the amount of taxes they pay, but taxpayers cannot hope to make the most of these changes without implementing some form of tax planning.

JOSEPH H. MARTINI, CPA, is the partner-in-charge of the New Orleans Tax Department of Deloitte Haskins & Sells. His major specialities include tax planning for corporations and individuals. W. ROBERT SMITH JR., CPA, is with the tax department of the Baton Rouge office of the firm. His major interests include corporate taxation.

☐

NATIONAL NEWS

Government Employment Falls

State and local government employment dropped in 1981 for the first time since World War II, according to the U.S. Commerce Department's Census Bureau.

The bureau says annual increases began in 1945 when state and local government workers totaled 3.2 million. Employment in 1980 reached 13.3 million, then dropped last year to 13.1 million. Much of the decline is attributed to the ending of public service employment portions of the Comprehensive Employment and Training Act on Oct. 1, 1981.

Federal civilian employment also dropped in 1981, but not for the first time. It peaked at near 3.4 million during World War II, receded to 2.0 million in 1947, then rose to 2.5 million in 1951 and to 3.0 million by 1967. Since then it has remained near its present level of about 2.9 million.

Federal civilian employment decreased from 1980 to 1981 by 34,000, or 1.2 percent. State employment dropped by 27,000, or .7 percent, to a total of 3.7 million, and local governments lost 185,000, or 1.9 percent, down to 9.4 million. Total government employment dropped 1.5 percent between 1980 and 1981 to 16 million. In 1944, the total was 6.5 million.

Drug Store Sales Up in 1982

Shoppers watched their pennies in 1982, but they spent more of them in drug stores than they did the year before, according to a nationwide survey by Drug Store News, the industry newspaper.

The average consumer now spends between $15 and $16 on each shopping trip to the local drug store vs. $14 a year ago, the study points out. However, impulse buying is down. In 1981, only 14 percent admitted they did not make unplanned purchases. This year, the urge to save and count pennies pushed 42 percent to shun non-planned purchases—indicating a growing cautiousness in the general consumer mood.

Anti-Cancer Drug Research

Hybritech Incorporated of San Diego has received a contract from the National Cancer Institute (NCI) to develop and produce for clinical trials anti-cancer agents that incorporate monoclonal antibodies linked to chemotherapeutic drugs, toxins and radioisotopes.

Under the three-year contract, Hybritech will use chemical procedures to couple anti-cancer agents to monoclonal antibodies directed against molecules found on human tumor cells. Hybritech will determine experimentally how to make the new compounds, evaluate their effectiveness in killing cancer cells, scale up production of the most successful drug candidates, and will supply to the NCI quantities sufficient for preliminary clinical trials in a form suitable as a human-use product.

Antibodies are molecules produced by the immune system to defend against invasion by infectious diseases or to stop the growth of tumor cells. Monoclonal antibodies are a new form of antibody that is produced in test tubes through a type of genetic engineering, and permits large-scale production of highly pure antibodies which will react with cancer cells, but will not react with normal tissues.

The objective of the program is to determine if the therapeutic capacity of these monoclonal antibodies can be enhanced by combining them with other cell-killing agents such as diptheria and ricin toxins, methotrexate, chlorambucil, gelonin, and radioisotopes. The program will also determine if the often highly toxic side effects of injecting these cell-killing agents are reduced by coupling them to antibodies which avoid normal tissues and concentrate at the tumor site.

Audits on the Same Issue Avoided by IRS

The Internal Revenue Service has set a policy of avoiding audits on the same issue year after year. If an item is questioned and examined by the IRS, the chances are slim that citizens will be reaudited if there were no changes or the assessment attributable to the issues was nominal. It is, of course, the prerogative of the IRS as to whether or not it chooses to examine any item.

Speaking of audits and auditors, the IRS uses two kinds—revenue agents from the Examination Division and special agents from the Criminal Division. The difference? Revenue agents handle routine examinations of ordinary expenses, while special agents usually investigate suspected criminal violations of the tax laws.

The IRS says it is not uncommon for two agents, both revenue and criminal, to make joint investigations, when evidence indicates a possible criminal prosecution. Convictions of such violations can be serious, with maximum penalties including five-year prison terms, back taxes and interest, and fines of up to $10,000 per year.

Special agents are required to identify themselves and to advise subjects of their rights to remain silent and legal representation. Certainly no records should be turned over, or statements made, without benefit of consul. □

Richard A. White and Michael J. R. Hoffman

The Effect of Recent Tax Legislation on Investments in Realty Property

This paper examines the effect of changes in the tax law with respect to investments in several types of realty property as a result of ERTA and TEFRA. The relevant changes are discussed and then analyzed by means of a simulation of a hypothetical investment situation. The investment simulation confirms that the changes in the law increased the discounted tax benefits for all types of realty property examined. However, the increase in tax benefits is not uniform across all types of property.

Congress has recently passed two important pieces of legislation affecting the tax treatment of realty property investments. The purpose of these two laws is to amend the relevant sections of the *Internal Revenue Code of 1954* (IRC); thus, neither is intended to stand alone, but rather is to be incorporated into the existing IRC body of tax law.

The Economic Recovery Tax Act of 1981[1] (ERTA) provides a wide range of tax benefits which includes lowering tax rates; increasing income exclusions, deductions and credits; and accelerating business deductions of the cost of long-lived property. Investors in realty property particularly benefit from the new law. The Tax Equity and Fiscal Responsibility Tax Act of 1982[2] (TEFRA), signed into law a year after ERTA, includes a provision affecting the tax treatment of rehabilitation expenditures made with respect to certified historic structures. (Except where indicated otherwise, the property affected by ERTA and TEFRA is that which is used in the production of income. Those provisions which affect personal use property are identified as such.)

In general, two major changes in the law have had significant impact on all business investments in realty property. First, the maximum tax rate on investment income is reduced from 70 percent to 50 percent. As a result, the income tax on rental income and gains derived from the sale of realty property has been reduced considerably for taxpayers in higher tax brackets.

Second, beginning with realty property placed in service in 1981, the manner in which the cost of such property may be depreciated has been changed significantly. The concepts of estimated useful life and salvage value are no longer valid. The distinction between new and used property also has been eliminated for tax purposes.

ERTA permits the cost of most realty property to be depreciated over a 15-year period, using a method approximating the 175-percent declining balance method, switching to straight-line at the optimal point. This new system is called the accelerated cost recovery system (ACRS).[3]

The straight-line method spreads the cost of the property evenly over the recovery period (e.g., a 15-year recovery period permits the reduction of 1/15 of the cost of the property annually). The 175-percent declining balance method permits larger amounts to be deducted earlier in the life of the property. In this way the tax benefits of the depreciation of the cost of long-lived property are realized more quickly. Therefore, taking the time value of money into account, the faster depreciation allowances increase the *value* (discounted tax benefits) of depreciation tax savings.

Depreciation under ACRS is not mandatory. Those taxpayers who wish to *save* some of their depreciation deductions for later, more profitable years may elect to use the straight-line method over a 15-, 35-, or 45-year period.

Realty Property Rehabilitation

The Tax Reform Act of 1976 and the Revenue Act of 1978 introduced incentive provisions intended to encourage rehabilitations of vertified historic structures and older commercial buildings. The 1976 Act allowed the taxpayer to elect to amortize capital expenditures for certified rehabilitation of an historic structure over a five-year period. The 1978 Act provided a 10-percent investment tax credit for expenditures for rehabilitation of a qualified building. A credit is a direct reduction of income tax liability. Taxpayers rehabilitating historic structures, beginning in 1978, had the options of amortizing the cost of the rehabilitation over five years, or of claiming the investment tax credit and depreciating the rehabilitation costs over the useful life of the property.

ERTA has made both favorable and

WASHINGTON

unfavorable changes to these incentive provisions. Effective in 1982, the new provision replaces the 10-percent investment tax credit for qualified rehabilitation expenditures with a three-tiered credit—15 percent for 30-year-old buildings, 20 percent for 40-year-old buildings and 25 percent for certified historic structures.[4]

Claiming credit for rehabilitation expenditures results in reduction of the amount eligible for depreciation. The basis for depreciation of 30- and 40-year-old buildings is reduced by the entire credit claimed. The basis for depreciation of certified historic structures is reduced by one-half of the credit claimed.

Under ERTA there was no reduction of basis for certified historic structures; however, the reduction was mandated under TEFRA. In the event the rehabilitated property is disposed of before holding it five full years, 20 percent of the claimed credit must be paid back for each year, or fraction thereof, and the period of use falls short of the required years. The amount of recapture increases the property's adjusted basis. Adjusted basis is normally defined as acquisition cost, plus the cost of improvements, minus accumulated depreciation.

Except for certified historic structures, the buildings must be nonresidential realty property. This includes office buildings, hotels, warehouses, stores and factories, but excludes apartments or other types of residential property. A certified historic structure may be residential or nonresidential property, but must be listed either as historic in the *National Register*, or located in a registered historical district and be certified by the secretary of the interior as being of historic significance.[5]

Qualified rehabilitation expenditures must meet three major requirements.[6] First, except for certified historic structures, the building must be at least 30 years old. Second, at least 75 percent of the existing walls must be retained in place as external walls in the rehabilitation process. Third, the building must be substantially rehabilitated. This is operationally defined as qualified rehabilitation expenditures incurred during a 24-month period, ending on the last day of the taxable year, exceeding the greater of (1) the taxpayer's adjusted basis of the property at the beginning of the 24-month period, or (2) $5,000.

Building acquisition or enlargement costs are specifically excluded as rehabilitation expenditures. In addition, rehabilitation expenditures do not include expenditures with respect to which the straight-line method of depreciation has not been elected.

Proposed U.S. Treasury regulations define rehabilitation expenditures as renovation, restoration or reconstruction costs.[7] For example, capital expenditures for the removal of existing interior walls, plumbing, electrical wiring and flooring qualify, whereas expenses for sidewalks, parking lots and landscaping do not.

Favorable Changes

Investment tax credit rate increases, combined with the shorter period over which the expenditures can be depreciated, should increase the discounted tax savings for rehabilitation expenditures of 30- and 40-year-old realty property. Not so clear is whether the 25-percent credit for certified historic rehabilitation yields a greater discounted tax benefit than the five-year amortization provision permitted under prior law.

Prior law required a 20-year waiting period between rehabilitation expenditures. That is, if a taxpayer claimed a credit for rehabilitation expenditures, additional credits for rehabilitation costs for the same buildings were not permitted until 20 years later. Consequently, taxpayers may have elected not to claim rehabilitation credits to which they were entitled because they anticipated even larger rehabilitation expenditures and greater credits in future years. The new law has eliminated this waiting period.

Prior law required rehabilitation expenditures to have at least a five-year useful life. The elimination of this requirement should have little impact.

Unfavorable Changes

The current definition of substantial rehabilitation applies to all qualified rehabilitation costs; whereas, under prior law, it applied only to rehabilitations of certified historic structures. Because all costs have to exceed the property's adjusted basis, many previously qualified expenditures may fail to qualify under the new law. The taxpayer is faced with a potential paradox at the initial acquisition of the rehabilitation property. On one hand, expenditures in a 24-month period must exceed the property's basis; while, on the other, at least 75 percent of the existing external walls must be retained. To help overcome this constraint, a special rule for phased rehabilitation allows the taxpayer to accumulate the rehabilitation expenditures over 60-months, instead of the 24-month period. This option requires that the phases be specified in architectural plans prior to the initial rehabilitation.

The age requirement has been increased from 20 years to 30 years. If rehabilitation of a building 20- to 29-years-old began in 1981, the old law still applies. However, if the expenditures, which began in 1981, are in connection with the rehabilitation of an historic building, the new law applies to all expenditures incurred after that year.

The taxpayers's election to amortize rehabilitation costs of certified historic buildings over five years has been repealed, effective in 1982. Also, in the event of a separate rehabilitation of a major portion of a building, it can no longer be treated as a separate building.

Expenditures incurred by a lessee of a building will not qualify as rehabilitation expenditures unless the remaining term of the lease, after rehabilitation, is at least 15 years. Prior law did not specify a minimum lease term.

Realty Property

Prior to ERTA and TEFRA, the cost of new nonresidential realty property could be depreciated over its estimated useful life, using either a declining balance method, not to exceed 150 percent, or the straight-line method. On the other hand, residential rental property could be depreciated by using a declining balance method, not to exceed 200 percent, or the straight-line method.

Upon disposition of property, gain is determined by subtracting the property's adjusted basis from the net selling price; however, some of the gain may not qualify for preferential capital gains treatment, but rather, will be classified as ordinary income. Taxation of gain as ordinary income is known as depreciation recapture. The classification of gain as ordinary income, rather than long-term capital gain, has a significant effect on the seller's tax liability. Each dollar of ordinary income increases taxable income by a dollar, while each dollar of long-term capital gain increases taxable income by only 40 cents.

For both residential rental and nonresidential property placed into service prior to 1981, the definition of depreciation recapture is the total amount of depreciation taken, less the amount of depreciation that would have been allowed under the straight-line method of depreciation. Therefore, if the 150-percent declining method was used, some depreciation would be subject to recapture should the property be held less than the full period over which the asset was being depreciated. Nevertheless, taxpayers generally elected to use the most accelerated depreciation method allowable, because the extra deductions yield immediate tax savings at the expense of the future tax costs.

The accelerated cost recovery system provisions in ERTA permit the costs of most types of realty property to be depreciated over a 15-year period, using a method which approximates the 175-percent declining balance method switching to straight-line.

If the ACRS provisions are used,

WASHINGTON

under ERTA's revised depreciation recapture rules for nonresidential realty property, gains on the disposal of nonresidential realty property will be taxed as ordinary income to the extent of *all* of the depreciation taken to date, not simply the excess over straight-line.[8] If the straight-line method of depreciation is adopted, consistent with prior law, no depreciation recapture will result. The depreciation recapture potential for residential rental realty property has not been changed by either ERTA or TEFRA.

Favorable Changes

The introduction of ACRS sharply increased the tax benefits to be derived from the depreciation of the cost of realty property. Under prior law, cost was depreciated over the useful life of the property, which for new realty property could range from 40 to 60 years. Consequently, as long as 60 years could be required to fully recover the cost of realty property. The 15-year ACRS recovery period permits costs to be recovered much more quickly. This does not mean the total amount of the deductions is changing, but rather, the timing of those deductions is accelerated. Therefore, taking the time value of money into account, the discounted tax benefits associated with the depreciation of the cost of realty property have increased significantly.

The ACRS method used to compute depreciation for realty property approximates the 175-percent declining balance method. Previously the most accelerated method available for the depreciation of nonresidential realty property was the 150-percent declining balance method. Thus, the method used to compute annual depreciation deductions has been slightly liberalized for nonresidential realty property.

Unfavorable Changes

The major unfavorable change brought about by ERTA was in the definition of depreciation recapture for nonresidential realty property. Under the recapture rules prior to ERTA, investors in nonresidential realty property could reduce the depreciation recapture by postponing the disposal of the property until a substantial portion of its useful life had passed. Recapture was completely eliminated by holding the property for its full life.

Because ERTA requires that all depreciation on nonresidential realty property be recaptured as ordinary income, the opportunity for the taxpayer to reduce or eliminate the depreciation recapture no longer exists, unless he elects to use the straight-line method of depreciation from the start. Therefore, the taxpayer must weigh the tax benefits associated with the use of ACRS against the more severe tax costs incurred upon subsequent disposal of the property. For example, a study by Ensley, Fields, and Orbach[9] concluded that an individual in the 50-percent tax bracket should not elect ACRS unless he plans to use the asset 16 years or longer (using a 15-percent discount rate).

Under prior law the cost of new residential rental realty property could be depreciated using the 200-percent declining balance method. The depreciation method incorporated in ACRS approximates the 175-percent declining balance method, which is slightly less accelerated than the method allowed prior to ERTA.

Other Realty Property

Homeowners planning to sell their homes also are affected by favorable changes in the law. If a taxpayer purchases a new home, the gain on the sale of his former residence is taxed only to the extent that the adjusted sales price of the former residence exceeds the cost of the new residence. Hence, buying a more expensive home postpones the taxation of the entire gain. The new law changed the time period, within which the new residence must be acquired, from 18 months to 24 months before or after the sale of the old residence.[10]

The second major change was to raise the once-in-a-lifetime exclusion of gain from the sale of the principal residence of a taxpayer, who is at least age 55, from $100,000 to $125,000.[11] Both of these provisions also became effective July 20, 1981.

Although the election to amortize rehabilitation expenditures pertaining to certified historic structures has been repealed, owners of qualified low-income housing may still amortize qualified rehabilitation costs over 60 months. The amount of eligible expenses has been raised from $20,000 to $40,000 per dwelling unit.[12]

Comparative Analysis

The major tax incentives provided by Congress to spur investment have been the investment tax credit and depreciation deduction. Although they both provide the taxpayer with cash inflows, fundamentally they are quite different. The cash inflow generated by the investment tax credit is generally realized in the year of purchase, and is independent of the taxpayer's marginal tax rate. However, the cash inflow generated by depreciation deductions is realized over several years, and is dependent on the taxpayer's marginal tax rate. The higher the tax rate, the greater the cash inflow.

The following analysis computes the discounted tax benefits associated with depreciation deductions and investment tax credits prior to, and following ERTA and TEFRA for certified historical, 40-year rehabilitation, 30-year rehabilitation, nonresidential and residential rental property. This analysis assumes that a $100,000 capital expenditure is made on January 1, for each of the five types of property.

Tax benefits are sensitive to tax rates, discount rates and holding periods; therefore, the computations were varied to include two tax rates (50 and 25 percent), two after-tax discount rates (10 and 16 percent), and three holding periods (5, 12 and 20 years). The sales price at the end of the holding period was simplified by assuming it to be equal to the initial $100,000 expenditure. Once the discounted tax benefits were calculated, they were expressed as a percentage of the investment ($100,000). This manipulation facilitated the extension of the results of this illustration to investments of any amount.

Discounted Tax Benefits Model

The discounted tax benefits associated with a particular piece of property equal the discounted tax saving, less the discounted tax cost. The tax savings equals the amount of the tax credit discounted one year, plus the sum of the discounted tax savings from each year's depreciation deduction. The tax cost is the present value of the tax liability from the gain on the sale of the property.

The discounted tax benefits from a $100,000 investment can be computed by means of the following equation:

$$B_k = (C_k)\,(p-/_{i})\,(\$100{,}000) + \sum_{j=i}^{n} (D_j)\,(T_j)\,(p_{\overline{j}}/_{i}) - (G_n)\,(T_n)\,(p-/_{i})$$

Where: B_k = discounted tax benefits for property k;
C_k = tax credit for property k, as a percentage;
$p-/_{i}$ = the factor for the present value of $1, discounted j periods at i percent;
D_j = depreciation expense in period j;
T = marginal tax rate for period;
G_n = the taxable gain in period property is sold; and,
n = number of years the property is held.

Because residential rental and nonresidential realty properties do not qualify for a tax credit, C_i equals zero for these properties. Consequently, for these two types of property, the discounted tax benefits equal the present value of tax savings from the depreciation deductions, minus the tax cost from the gain on sale.

Table 1 presents the discounted tax benefits at a 50-percent tax rate for various types of realty property. For example, the discounted tax benefits for certified historical property, at a 10-percent discount rate and a five-year holding period, is 28.6 percent after ERTA and TEFRA, and 12.7 percent before. That is, the discounted tax benefits from investing $100,000 in certified historical property, after and before the law changes, approximate $28,600 and $12,700, respectively. Referring to the equation presented above, the $28,600 discounted tax benefit was computed as follows:

$$28{,}600 = .25(p-/_{.10})\,(100{,}000) + \sum_{j=1}^{5} (5{,}800)\,(.50)\,(p_{\overline{T}}/_{.10}) - (16{,}700)\,(.50)\,(p-/_{.10}).$$

Reexamining *Table 1*, the results may be summarized as follows:

1. In all cases, the discounted tax benefits are greater after ERTA and TEFRA;

2. The order of ranking of the various types of property, on the basis of discounted tax benefits from high to low, is certified historical, 40-year rehabilitation, 30-year rehabilitation, residential rental and nonresidential rental (this ranking held constant across all manipulations of discount rate and holding period); and,

3. The longer the holding period, the greater the tax benefits. This relationship is primarily attributable to the fact that as the holding period lengthens, the tax costs (i.e., taxation of gain on disposition) is further postponed. Thus, the longer the holding period, the smaller the discounted tax cost becomes.

Although all of the types of realty property profited from ERTA and TEFRA, not all did so equally. To determine which properties faired better, two additional computations were made. First, the change in the discounted tax benefits resulting from changes in the law was computed by subtracting the previous discounted tax benefits from the benefits after ERTA and TEFRA. For example, in Table 1, the net change in discounted tax benefits, at a rate of 10 percent for certified historical property held five years, is 15.9 percent (28.6 percent less 12.7 percent).

Second, the discounted tax benefits after ERTA and TEFRA were divided by the prior discounted tax benefits. This ratio provides an indication of the relative change in tax benefits. For example, the ratio for certified historical property held for five years and discounted 10 percent, is 2.3 percent (28.6/12.7). This indicates benefits after ERTA and TEFRA are 2.3 times as great as under prior law.

Rankings of the five types of property (assuming a 10-percent discount rate and 50-percent tax rate), according to the above computations, are presented in *Table 2*. When viewing the nominal or dollar change in discounted tax benefits, the rankings vary only slightly from the rankings in *Table 1*. Certified historical property held 20 years declines from first to fifth in the 50-percent-tax-rate category. This decrease is directly attributable to the repeal of the five-year amortization option, a provision which greatly benefited high bracket taxpayers.

An examination of the right half of *Table 2* shows that residential rental and nonresidential property faired better under the new laws than did rehabilitation property, if percentage increase is used as a standard of comparison. The ranking of certified historical property has dropped for the reasons discussed above. The declining rankings of the other rehabilitation properties may be explained in that the benefits of increased investment tax credit rates permitted by the new law were partially negated by requiring the use of straight-line depreciation and the reduction of the property's depreciable basis by the amount of credit.

In general, the rankings do not differ significantly when a 16-percent discount rate is assumed. However, when a 25-percent tax rate is assumed, the rankings for certified historical property are first in five cases, and second in one case. This is because the investment tax credit is independent of tax rate. Therefore, for lower tax rates, the credit dominates the tax benefits. However, in general, most taxpayers investing in realty property are more likely to be closer to the 50-percent tax rate, than the 25-percent tax rate.

Conclusion

The Economic Recovery Tax Act of 1981 has increased the tax incentives for many types of realty property. Tax benefits for both residential and nonresidential property, in particular, have doubled. In addition, rehabilitation expenditures for 30- and 40-year-old buildings faired almost as well. However, the new eligibility requirements for rehabilitation expenditures may severely limit the application of this provision. Finally, although historic property still yields the greatest tax benefits, the relative increase in tax benefits for this type of property was not as great as the other realty properties, particularly in regard to high bracket taxpayers.

TABLE 1
Discounted Tax Benefits for Alternate Types of Realty Property After and (Before) ERTA & TEFRA

Type of Property	Discounted Tax Benefits as a % of Investment (50% Tax Rate)					
	10% Discount Rate			16% Discount Rate		
	Holding Period (Years)					
	5	12	20	5	12	20
Certified Historical[a]	28.6 (12.7)[b]	37.3 (24.8)	41.9 (32.7)	27.1 (12.0)	33.9 (25.9)	36.8 (31.0)
40-year Rehabilitation	22.5 (12.7)	31.0 (17.0)	37.0 (20.1)	21.5 (12.0)	28.3 (15.5)	31.1 (17.3)
30-year Rehabilitation	19.0 (12.7)	27.7 (17.0)	33.7 (20.1)	18.1 (12.0)	24.9 (15.5)	27.7 (17.3)
Residential Rental	9.8 (4.0)	20.5 (9.3)	25.4 (13.2)	9.5 (3.9)	18.1 (8.0)	21.0 (10.3)
Nonresidential	8.5 (3.6)	17.6 (7.9)	22.4 (11.0)	7.7 (3.4)	14.6 (6.9)	19.5 (8.7)

[a] Because prior law allowed the taxpayer to elect between 5-year amortization and depreciation/investment tax credit, the illustrated percentages assume the optimal election.

[b] The numbers in parentheses represent the discounted tax benefits before ERTA.

TABLE 2
Randing of Discounted Tax Benefit Changes After ERTA and TEFRA for Alternative Types of Realty Property

	Ranking of Nominal Increase in Discounted Tax Benefits[a]			Ranking of Percentage Increase in Discounted Tax Benefits[a]		
Type of Property	5	12	20	5	12	20
Certified Historical	1	2	5	3	5	5
40-year Rehabilitation	2	1	1	4	3	3
30-year Rehabilitation	3	4	2	5	4	4
Residential Rental	4	3	3	1	1	2
Nonresidential	5	5	4	2	1	1

[a] The rankings are based on the discovered tax benefits illustrated in Table 1 assuming a 10% discount rate and 50% tax rate. The rankings assuming a 16% discount rate did not differ. However, when a 25% tax rate is assumed, the rankings for certified historical property are first in five cases and second in the other case.

---

[1] Economic Recovery Tax Act of 1981, P.L. 97-34, 8/13/81.

[2] Tax Equity and Fiscal Responsibility Act of 1982, P.L. 97-238, 9/3/82.

[3] IRC Sections 168(b) and 168(c). All references to the *Internal Revenue Code of 1954*, Commerce Clearing House, Inc., 1982, are denoted IRC.

[4] IRC Sections 46(a)(2)(A)(iv) and 46(a)(2)(f)(i).

[5] IRC Section 48(9)(3).

[6] IRC Section 48(g)(1).

[7] Proposed Regulations Section 1.48-11 (b)(3), 10/28/80.

[8] IRC Sections 1245(a)(1), 1245(a)(2), 1245(a)(5).

[9] Ensley, Chula G., Kent T. Fields, and Kenneth N. Orbach, "A Determination of an Optimal Depreciation Method for Nonresidential Real Property Under ERTA: A Computer Simulation," Southeast American Institute for Decision Sciences 1982—Memphis Proceedings, February 17-19, 1982, pp. 225-227.

[10] IRC Section 1034(d)(1).

[11] IRC Section 121(b)(1).

[12] IRC Section 167(k).

MICHAEL J. R. HOFFMAN is an instructor, and RICHARD A. WHITE is an assistant professor in the Accounting Department of the College of Business Administration at Louisiana State University at Baton Rouge. ☐

COLLEGE HIGHLIGHTS

Graduate Enrollment Increases, Students Waiting Out Recession

Graduate school enrollment for the College of Business Administration increased again this year as more students remained in school in hope of waiting out the recession, according to **Lamar B. Jones,** associate dean of the College of Business Administration.

The college's graduate enrollment is the largest at the University, except for the College of Education. A large part of this registration is constituted of part-time students who enroll in the Master of Business Administration (MBA) program as a hedge against unemployment.

The rise in part-time enrollment is also coincidental with current national trends toward increased part-time programs. While 1980 part-time enrollment constituted 43 percent of total LSU-MBA enrollment, 1982's share climbed to half of the college's enrollment.

The mean in student age rose from 26.5 years in 1980 to 27.1 years in 1982. For males, the 1980 mean age was 26.7, and in 1982 it was 27.2. For females the corresponding age data were 26.2 in 1980 and 26.6 in 1982.

Despite the role of adverse economic indicators as a major influence in spurring increased enrollment, many students are returning to school in hope of qualifying themselves for better-paying positions. A leveling-off of enrollment statistics may take place, but no decline is forecasted, Jones said.

Recent Faculty Publications

- **Steven P. Golen,** chairman of the Department of Business Communication and Office Systems, has authored *Small Business Bibliography (SBB) No. 92* for the Small Business Administration titled, "*Effective Business Communication*," to explain to small business owners and managers the various principles, problems and applications of effective business communications, and where to find out more about them.

The bibliography will be revised periodically, and any publisher may submit relevant information for possible inclusion. Persons interested in obtaining free copies of the *SBB* may write SBA, P. O. Box 15434, Fort Worth, TX, 76119.

- **William F. Staats,** chairman of banking in the Department of Finance, has published a book titled, *Money and Banking*, through the American Bankers Association.
- **Stephen C. Farber,** associate professor of economics, has recently written "*Post Migration Earnings Profiles: An Application of Human Capital and Job Search Models*," for the January issue of the *Southern Economic Journal*. Another forthcoming article by Farber is "*Cyclical Price Flexibility: A Test of Administered Pricing*," to be published in the *Journal of Industrial Economics*.
- **Edmund R. Gray,** head of the management department, recently had a paper, "*Personal Values and Managerial Decision Making: Evidence From Two Cultures*," published in the *Management International Review*.

Three New Scholarships Are Offered

Three new scholarships have been established in the College of Business Administration.

The American Bank and Trust Company of Baton Rouge offers the *J. Clifford Ourso, Sr., Scholarship* to any full-time business field student on the LSU Baton Rouge campus maintaining at least a 2.5 high school or college average. The *Capital Area Personnel Association Scholarship* will aid any first-year graduate student maintaining a 3.0 average in personnel management on a one-time basis and will be limited to the current registration fee for one academic year. The *Louisiana Land and Exploration Foundation Scholarship* is open to any Louisiana resident majoring in petroleum land management with proven scholastic and leadership abilities, and evidence of financial need. The scholarship is renewable provided the eligibility is maintained.

Conference Papers Presented

- **James A. Richardson**, associate professor of economics, and **Loren C. Scott,** associate director of the Division of Research, recently presented "*Natural Gas Price Regulation and Industrial Users: The Case of Louisiana*" to the International Research Center for Energy and Economic Development at the University of Colorado.
- "*The Effects of Widescreen TV on Advertising Recall*," presented at the Annual Conference of Southern Marketing Association by **Joseph F. Hair,** head of the LSU Marketing Department; **Ronald F. Bush,** instructor of marketing; and Allan Gush, professor of marketing at Texas A&M, was recognized as the outstanding paper for the meeting.

Faculty Appointments

Three new faculty members have been appointed to the College of Business. **Marsha Richins,** a marketing research and consumer behavior specialist, and **Peter H. Bloch,** a consumer behavior specialist, both from Portland State University, have been appointed assistant professors in the Marketing Department. **Avijit Banerjee,** formerly of the University of Delaware, has been appointed an assistant professor in Quantitative Business Analysis. □

IN APPRECIATION

The **Louisiana Business Review**, a quarterly publication of the Division of Research in the College of Business Administration at Louisiana State University, is dedicated to providing worthwhile and timely information on local, state and national economic developments of interest to members of the Louisiana business and government communities. This objective is being achieved by presenting high quality, readable articles written by knowledgeable representatives from business, government and academia. The Division would like to express its sincere appreciation to the following companies whose valuable contributions have made this publication possible.

Major Contributors:

AMERICAN BANK
AND TRUST COMPANY
BATON ROUGE

BANK OF THE SOUTH
BATON ROUGE

BATON ROUGE BANK
AND TRUST COMPANY
BATON ROUGE

CAPITAL BANK
AND TRUST COMPANY
BATON ROUGE

CITY NATIONAL BANK
BATON ROUGE

FIDELITY NATIONAL BANK
BATON ROUGE

FIRST STATE BANK
AND TRUST COMPANY
BAKER

GULF STATES UTILITIES
COMPANY
BATON ROUGE

LOUISIANA
NATIONAL BANK
BATON ROUGE

Other Contributors:

BANK OF ZACHARY
ZACHARY

COMMERCIAL-SECURITIES
COMPANY, INCORPORATED
BATON ROUGE

FIRST NATIONAL BANK OF PORT ALLEN
PORT ALLEN

HOWARD, WEIL, LABOUISSE,
FRIEDRICHS, INCORPORATED
BATON ROUGE

LIVINGSTON STATE BANK
DENHAM SPRINGS

WOODFIN-SMITH PONTIAC, INCORPORATED
BATON ROUGE

LOUISIANA
BUSINESS
REVIEW

Division of Research
College of Business Administration
Louisiana State University
Baton Rouge, LA 70803

NON-PROFIT ORG.
U.S. POSTAGE
PAID
BATON ROUGE, LA
PERMIT NO. 733

6/30/83 U2735-1 A

LOUISIANA BUSINESS REVIEW

Louisiana State University,
Baton Rouge

Louisiana's 1983 Economic Outlook

LETTER FROM THE EDITORIAL BOARD

Due to a recent turnover in our editorial staff, this issue is being published late. We regret this inconvenience to our readers, especially since this issue introduces the *Louisiana Econometric Model* and its forecasts for 1983. These forecasts were made by Professors Richardson, Scott, and Jamal in December 1982. Revisions and updates of these forecasts will appear in subsequent issues of the *LBR*.

One of the most difficult tasks facing both private and public sector decision-makers is planning for the future. When one operates primarily within the borders of one state or when a business has branch operations in a state this planning task is compounded by a lack of reliable projections on the future of that state's economy.

For these reasons it is a special pleasure for the Editorial Board to introduce to our readers the new *Louisiana Econometric Model*. This model, which is a description of the state's economy in a series of mathematical equations, was built by Professors James A. Richardson and Loren C. Scott, and research economist A. M. M. Jamal. The model can be used for forecasting the future levels of a number of important state economic variables, such as employment by industry, wage and salary income by industry, energy production and consumption, population trends, and activity in our banks and thrift institutions. It was built over a period of eighteen months and was funded by a grant from the Louisiana Board of Regents.

In Part I of the lead article, Richardson, Scott and Jamal spend some time describing how the model was built, its components, and how it is used for making projections. This part of their report is designed to inform those readers who are particularly interested in the technical details of the model.

Part II of their report contains forecasts for *1983* for over 50 different economic variables in the state. Estimates of the values for each of these variables for *1982* are also given since lags in the data prevent the authors from knowing most of these magnitudes until late in the Spring of 1983.

In Part III of their report, these model-builders reveal their plans for expanding and improving the model in the future.

The major conclusions of the Louisiana econometric model for 1983 are:

- the manufacturing sector in Louisiana is to remain relatively stagnant;
- government services, retail and wholesale trade and agricultural services sectors are projected to experience very modest increases;
- stronger growth is expected to occur in farming, mining, construction, transportation, public utilities, and communications; and
- nominal per capita income is expected to rise by 7.7 percent, but real per capita income is projected to rise by 2.4 percent.

The English language often does not serve as an unbiased transmitter of concepts when it is used in the political-economic arena. During the 1930s, the federal and state governments passed legislation popularly known as *Fair Trade* legislation. The effect of this legislation was to enable manufacturers, often at the request of small retailers, to enforce contracts stipulating that certain products could not be sold in the state below certain prices. In some states, this "Fair Trade" legislation went so far as to apply the minimum or floor price to *all* retailers in the state, even if only *one* retailer had signed the contract with the manufacturer. This practice—also known as resale price maintenance—has largely disappeared from the American scene, but it once flourished in Louisiana, as it did in most other states.

Resale price maintenance (RPM) laws were often strongly supported by certain retailers. In the second major article, Professor Anthony Greco discusses the pros and cons of this legislation from the standpoint of both the manufacturer and the retailer. He also reviews the history of RPM laws from their peak period to their relative decline in the 1970s. The author specifically treats the history of RPM laws in Louisiana which received their legal foundation in the state's Fair Trade Act of 1936. What is especially interesting in this article is the review of the colorful role that John Schwegmann, Jr. of New Orleans played in fighting this legislation through the court system, and his ultimate success in defeating it.

In our *FORUM* article Maynard and Carolyn Dolecheck, professor at Northeast Louisiana University, tackle what must be one of the most controversial issues in the labor market in the 1980s—sex discrimination. They report on the results of a survey conducted among a sample of males and females who graduated from NLU between 1966 and 1981.

Their findings reveal substantial salary differentials between the sexes, but that these differentials have been declining among the more recent graduates. The authors conclude their article with recommendations to firms on how to remove organizational barriers to upward mobility for women and how to institute self-help programs to teach women the *tricks of the trade* in management.

Salary differentials however, do not necessarily mean that discrimination, of whatever kind, does exist. Past job continuity, expected future job continuity, mobility and location patterns, work patterns, occupational fields (e.g. accounting vs. personnel management), age and a number of other variables might provide justifiable economic reasons for salary differentials and, it is possible, that the economically adjusted data could show reverse differentials. However, studies with such adjusted data are rare because of the lack of easily obtained information. This article does provide some important fundamental data and its normative sections will undoubtedly generate a great deal of discussion among our readers.

—The Editorial Board

BEST AVAILABLE COPY

SPRING 1983

CONTENTS

Vol. 47 no. 1

LOUISIANA BUSINESS REVIEW

2 **Letter from the Editorial Board**

4 **Book Corner**

6 **Louisiana's 1983 Economic Outlook**
by James A. Richardson, Loren C. Scott
and A.M.M. Jamal

16 **National News**

17 **College Highlights**

18 **FORUM: Sex Discrimination in Company Management**
by Maynard M. Dolecheck
and Carolyn C. Dolecheck

22 **Decline and Fall of the Fair Trade Law**
by Anthony J. Greco

28 **Louisiana Bulletin**

30 **Research Notes**

Publisher:

Louisiana State University
College of Business Administration
Division of Research
Baton Rouge, LA 70803

Managing Editor:
Joseph H. Wagner

Art Director:
Chet Boze

Editorial Assistant:
S. Duward Lyons
Richard B. McCaslin

Editorial Secretaries:
Nora Fierro
Ellen R. Thrash

Editorial Board:
David B. Johnson, Chairman
Loren C. Scott
Joseph H. Wagner

Typesetting and Printing:
LSU Graphic Services

The LOUISIANA BUSINESS REVIEW, published quarterly by the Division of Research in the College of Business Administration, is owned and provided as an educational service by Louisiana State University and Agricultural and Mechanical College, Baton Rouge, Louisiana, a state-owned and operated institution of higher education.

Content of this publication is not copyrighted and may be reproduced without the consent of the publisher and/or authors. Proper acknowledgement should be given to the quarterly and its contributors for any use of published material.

The views and opinions expressed in articles appearing in this publication are those of the individual authors, and do not necessarily represent those of the *LBR* Editorial Board or Louisiana State University, Baton Rouge.

The Editorial Board invites the submission of manuscripts to be considered for publication in this quarterly. Style sheets for manuscripts and manuscript abstracts are available upon request. Comments and suggestions on any material appearing in the *LBR* are also welcome.

All communications and address changes should be sent to the editor, Louisiana Business Review, Division of Research, College of Business Administration Louisiana State University, Baton Rouge, LA, (504) 388-6645.

BOOK CORNER

Management Systems

The Office Automation Primer: Harnessing Information Technologies for Greater Productivity, Carolyn J. Mullins and Thomas W. West, Englewood Cliffs, NJ: Prentice-Hall, Inc., 1982, 158 pp., $9.95 (paper).

The *Office Automation Primer* is a well-documented and well-researched book written for the manager who does not have a strong background in office systems concepts. This book is structured to give a step-by-step analysis of the various factors that should be considered when planning, designing, implementing, and evaluating an office automation system for any size business.

The nine chapters are written in a lively, logical, and coherent style. When new terms are presented, they are explained in easy-to-understand language. A unique characteristic of this book is that it concentrates on concepts rather than dwelling on specific hardware and software items, which are likely to be outdated very soon.

What this book does is to provide the manager with various guidelines, checklists, and questions to ask during each stage of the office automation process. Examples, as well as realistic vignettes, are presented and analyzed so that the specific concept being illustrated can be understood and applied to a particular office automation system.

The Office Automation Primer meets its objective by illustrating how automation can increase productivity in all phases of a business using office automation services while improving the overall quality of work.

—Steve Golan

Career Changing: The Worry-Free Guide, by Linda Kline and Lloyd L. Feinstein, (Boston: Little Brown and Co., 1982), 244 pp. including a Glossary of Jargon and Index, $10.95 (paper).

The high rate of unemployment has many people pounding the pavement in search of work, while many who have jobs do not feel fulfilled by their fields of employment. Career changing has become very "in," and many experts have been writing on the topic.

Career Changing is written by professionals, two top personnel executives who give an insider's approach to how today's job market really functions. Linda Kline is president of an executive search and human resources consulting firm in New York City, and Lloyd Feinstein is director of human resources for a Fortune 1000 corporation in New Jersey.

As in Richard Nelson Bolles' best seller *What Color is Your Parachute*, the authors suggest working smarter, not harder, at finding "the" job which will serve as a steppingstone to a long-range career goal. Klein and Feinstein develop new ideas for sharpening job skills, strategies and techniques which give the reader the competitive edge necessary for successful job searching. Their comprehensive manual provides an innovative system for career change through self-evaluation and integration of qualifications while continually stressing achievements.

The authors keep the reader interested by providing " 'insiders' tips—a rule of thumb that job seekers have found is to expect to spend, for every thousand dollars of anticipated income, one week looking for the job . . . and the work does not stop once the job is found . . . the yardstick in measuring the difference between a career and a job is about 20 additional hours per week."

Career Changing can be invaluable to one who is willing to maximize the efforts of a successful career change by learning the job skills, strategies and techniques that could subsequently increase job awareness, fulfillment and earnings.

—Mary Delahoussaye

U.S. Government Publications

- U.S. Department of Commerce, International Trade Administration, *Joint Venture Agreements in the People's Republic of China*, (Washington, D.C.: U.S. Government Printing Office, 1982), 124 pp., no price given (stock no. 003-009-00356-3).

As relations continue to improve between the United States and the People's Republic of China, the subject of foreign trade is increasingly mentioned. The U.S. Department of Commerce is actively involved in assisting U.S. businesses to participate in this trade. Since joint-venture agreements are popular with the Chinese government, American businesses are encouraged to be informed about this type of operation. This publication provides an overview of how a joint-venture functions and briefly discusses related Chinese law. A related publication, *U.S.-China Commercial Relations: a Compilation of Basic Documents*, should also be of interest to businesses entering the China trade.

—Milt Ternberg

Rana catesbeiana for Fun & Profit

Frog Raising, by the American Frog Canning Company, introduced by Derek Van Alstine, New York: Dell Trade Paperback, 1983, $2.95 (paperback).

You don't hear much about frog raising these days, but back in 1937 the American Frog Canning Co. of New Orleans had some grandiose plans for the lowly amphibian. *Frog Raising* is a facsimile edition of the defunct firm's original instruction manual for prospective frog farmers. Its introduction by Derek Van Alstine tells us the booklet has been out of

BEST AVAILABLE COPY

print these forty-five years. This is a shame, because it's an illuminating little item.

For instance, where else can you learn how to manage a model frog farm, using the three-pond system (vital, because "frogs are by nature cannibalistic")? Or that frogs are always in season; their meat is white, tender, and delicious; and that the whole frog (rather than the legs alone may be eaten. Furthermore the reader is provided with such all-time favorite recipies as frog legs a la king, frog loaf, frog au gratin, and frog croquettes.

The company hoped to encourage the production of frog meat to meet the anticipated demand for its products: canned legs, soup, and frog legs a la king—the cornerstone of its empire, which also included turtle, crawfish, shrimp, and crab delights. Although *Frog Raising* is delightful to read, it leaves certain mysteries unresolved. What became of the company and its founder, Albert Broel? Did the public reject the firm's products, was it undercapitalized, was it bought out, did it produce some bad batches of canned frog and get sued? For these answers we will have to wait until some enterprising historian devulges the full story of the rise and fall of the American Frog Canning Company.

—Smiley Anders

Integrated Management Systems by F. Grant Schutte, Woburn, MA: Butterworths Publishers, Inc., 1981, 166 pp.

Occasionally one reads a book that is different. Professor F. Grant Schutte has authored a unique management test. *Integrated Management Systems* takes a rare approach to the management task. Rather than attacking the problem from a theoretical approach which would emphasize the manager's functions, Schutte approaches the manager's job from a practical perspective, starting from the implied position that management is a practice as opposed to an art or a science. He then proceeds to explain how managers should function.

The book begins by pointing out the two essential tasks of a manager—to be effective and efficient. He points out that at the operational level (i.e., the lower levels of the management hierarchy), efficiency is the essential responsibility and that at the top management level, effectiveness is the primary concern. In this context Schutte discusses strategic planning, management planning and control, and operational control. The spectrum of management responsibilities covered by these planning concepts ranges from determination of the organization mission and objectives, to ascertaining specific tasks are carried out efficiently.

Schutte's method of presenting the planning process is to divide the planning function into strategic planning, business planning, and designing planning systems. Strategic planning involves setting organizational objectives, identifying critical assumptions in organization planning, and the setting of strategic guidelines and targets. All of these are defined and lucid examples are provided. He points out that strategic plans are operationalized by projects or action plans. The natural flow of outputs from strategic planning (strategic guidelines and targets, both long and short run strategies) to input of the next level of planning (business planning) is explained in detail. The business planning level follows a given process: takes the inputs from strategic planning; sets assumptions; analyzes the strengths, weaknesses, opportunities, and threats; makes a mechanistic forecast; makes analytical forecasts; develops action plans; determine means of summarizing the incremental adjustments and improvements to the profit performance of the organization; and turns out short term financial plans or budgets. Gap analysis and review processes are outlined for the manager to follow. Designing planning systems is Schutte's way of planning to plan.

The author next moves to the management control function. Control is a continuous process which occurs at two levels in the organization. The first is strategic control, which deals with replanning which takes place when the basic assumptions upon which plans are based change. The second level of control is the function of comparing actual performance with standard performance and triggering corrective action to bring actual performance in line with predetermined standards.

In the final chapter, which Schutte calls "Some Loose Ends", authority and responsibility relationships are discussed. The pungent point that Schutte makes here is that supervisors often fail to tell their subordinates of their shortcomings. This is a major contributor to failure to achieve goals or objectives. At the end, performance measurement, communication, and appraisal are integrated in a unique and meaningful way.

This book is one that can be recommended for several uses, including required reading for practicing managers, a text in an adult education seminar for managers and executives, and a text for an advanced course in a management curriculum. It has good graphics including figures, tables, and charts which are useful in presenting the material. A bibliography is included at the end of the book.

—J. Donald Phillips

STEVEN GOLEN is head of the Business Communications and Office Systems Division of the College of Business Administration. MILT TERNBERG is the business librarian at LSU's Middleton Library and a frequent contributor to Book Corner. MARY DELAHOUSSAYE is a professional counselor and serves as director of the Career Opportunity Center of the Division of Instructional Support. SMILEY ANDERS is a well-known Baton Rouge newspaper columnist with somewhat bizarre reading habits. J. DONALD PHILLIPS is a professor at the University of Alabama Graduate School of Management. □

James A. Richardson, Loren C. Scott, and A. M. M. Jamal

Louisiana's 1983 Economic Outlook

The following economic forecast for Louisiana is based on a research project sponsored by the Louisiana Board of Regents. The ultimate purpose of the project was to develop an economic forecasting model for the state. The resultant Louisiana econometric model is designed not only to predict trends, but also to project those points at which these trends take effect.

Louisiana failed to feel the effects of the recent national stagnation until long after some other sections of the country, particularly the northeastern and midwestern states. In 1982, however, the state finally felt the force of recession as layoffs and business failures climbed. The level of economic recovery for Louisiana in 1983 is predicted to follow that of the nation, although some sectors of the state's economy will continue to stagnate.

Decision-makers in both the private and public sectors are keenly interested in the future course of economic activity. For this reason they must pay attention to economic forecasts for inventory control, hiring decisions, product scheduling, cash flow analysis, and other budgeting functions. The Louisiana econometric model provides the only state forecasts available to both public and private decision-makers.

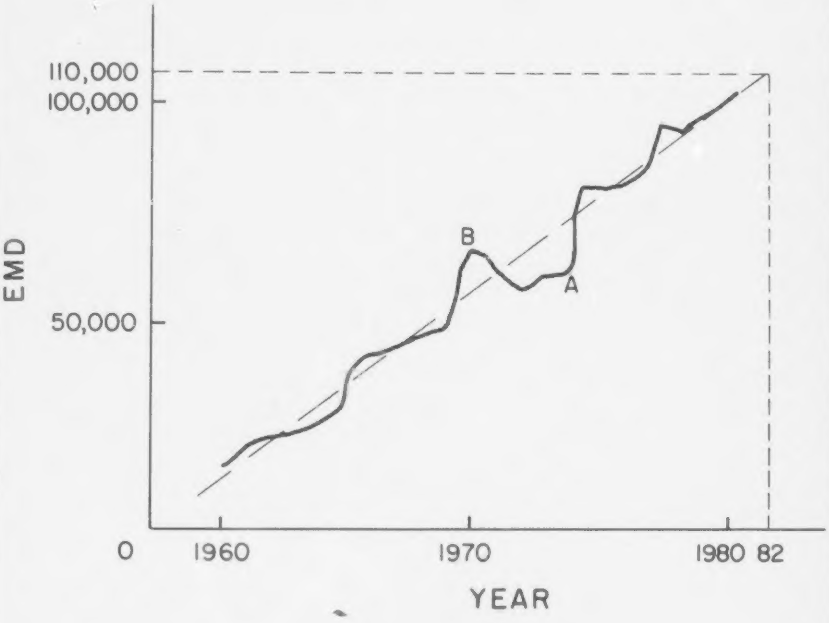


FIGURE 1. FORECASTING BY GRAPHICAL EXTRAPOLATION

Forecasting Methods

A broad variety of methods are used to make forecasts. At the simplest level, the forecast may be no more than an educated guess. Others may go a step further and use a technique called graphical extrapolation. This method involves plotting the historical behavior of the item to be projected on a piece of graph paper, laying a ruler or any straight edge along the graph, and simply extending a straight line out to the year in question.

The graphical extrapolation technique is illustrated in *Figure 1*, where historical data on employment in manufacturing durable goods (EMD) have been plotted for the years 1960-81. A ruler is laid along the graph and a line is drawn through the series (the dashed line) which represents, as closely as possible, past historical behavior. By extending this line out to the year 1983, one would estimate the year's *EMD* at 110,000 workers.

Econometric Forecasting

While the graphical extrapolation technique is useful and often yields surprisingly accurate results, it does poorly in projecting *turning points* in the series, such as the downturn that occurred at *point A* or the upturn illustrated at *point B* in *Figure 1*. The *econometric approach* is a method that attempts to explain these turning points, and then use the information for forecasting. In the econometric approach one builds a mathematical model to describe economic behavior

in particular markets, such as the durable goods employment in *Figure 1*. For example, one might argue that the behavior of EMD depends partially upon the behavior of durable goods manufacturing employment at the national level ($USEMD$). That is, the Louisiana economy is affected to some extent by what is happening in the national economy.

There are factors, of course, which might cause the state's EMD to perform somewhat differently from the $USEMD$. For example, many of the state's primary metals fabricators are producing items for use in petroleum exploration, such as drilling rigs, pipes and barges. Thus, one might expect the price of oil (PO) to have some influence on EMD in the state. Too, recent state historical trends in EMD may directly influence the future courses of employment in this sector.

A technique called regression analysis can be used to determine the statistical relationship between EMD and the caused factors. *Equation* [*1*] illustrates these relationships:

$$[1]\ EMD = 6.35 + 0.93\ [EMD(-1)] + 0.005\,(\Delta USEMD) + 0.23\ [PO]$$

where

EMD = employment in Louisiana durable goods manufacturing in the present time period;

$EMD(-1)$ = EMD in the previous time period;

$\Delta USEMD$ = the change in U.S. durable goods employment; and,

PO = the price of oil.

The parameter in *Equation* [*1*], which establishes the numerical relationship among $EMD(-1)$, PO, and $\Delta USEMD$ on EMD, are derived through regression analysis. Once *Equation* [*1*] is estimated, it can then be used for forecasting EMD.

For example, suppose that one wished to estimate the level of EMD for 1983. One would simply insert into *Equation* [*1*] the **1982** values of $EMD(-1)$ *and the* **1983** values of $\Delta USEMD$, and PO and then solve the equation for EMD (*Equation* [2]). For example, if $EMD(-1)$ was 101,795 in 1982; $\Delta USEMD$, 600,000; and PO, \$33.00 in 1983, then the 1983 EMD = 97,682.

$$([2]\ EMD = 6.35 + 0.93\ [101{,}795] + 0.005\ [600{,}000] + 0.23\ [\$33.00]\quad EMD = 97{,}682.)$$

The Wharton Econometric Model

The 1983 values for U.S. durable goods employment and the price of oil also must be forecasted. These forecasts come from a national model of the U.S. economy.

Future values of $\Delta USEMD$, PO, and the many other national variables used in the Louisiana econometric model, are secured from forecasts provided by the Wharton Econometric Model, which is a model of the U.S. economy developed by Wharton Econometric Associates of the University of Pennsylvania. The Wharton model is just one of a number of national economic forecasts provided by universities, consulting firms, and large corporations with forecasting subsidiaries.

The Wharton model was chosen by the research team because of its accessibility, and the fact that its forecasting record compares favorably with those of other large-scale U.S. models. The model's projections for 1983 fall somewhere near the consensus of the other forecasting models, taken as a group. This is illustrated in a publication called *Blue Chip Indicators*, which collects and summarizes the forecasts of some thirty large U.S. models. *Table 1* shows the forecasts for three critical national variables that were made by Wharton and five other well-known models. The consensus forecast of all the models, as computed by *Blue Chip Indicators*, is also shown.

Since the forecasts of the Wharton model figure heavily in the forecasts of the Louisiana economy, it is important to review the Wharton projections. These forecasts are based on certain fundamental assumptions. They assume the legislated third round of tax decreases due for July 1983 will proceed as scheduled, as will the tax increase package scheduled under the Tax Equity and Fiscal Responsiblity Act of 1982. Certain public spending cuts will occur in the non-defense, non-social security areas, with these budget cuts being consistent with the 1983 budget resolution. The federal budget deficit on national income accounts is projected to be $171.5 billion in 1983 and $167.0 billion in 1984. Monetary policy is assumed to remain relatively firm, with the growth in the money supply creeping up to 7 percent in late 1982, but falling back to about 5 percent in 1983.

Given these assumptions, the Wharton forecasts of national economic activity are shown in *Figures 2* through *4*. *Figure 2* contains recent historical behavior on the *GNP* growth rate, along with Wharton's forecasts for 1983 and 1984. Wharton is projecting the recovery from the present recession to be very lethargic with an annual rate in *GNP* of only 3.2 percent in 1983. A slightly higher rate is projected for 1984. The rate for 1983 is low, compared to post World War II recovery periods, when the first year recovery rates often ranged as high as 5.5 to 6.7 percent.

One of the primary reasons for this rather anemic expected recovery is shown in *Figure 3*, where Wharton's projections for the prime interest rate and inflation are given. Wharton is ex-

TABLE 1
PROJECTIONS OF SELECTED LARGE ECONOMETRIC MODELS: 1983

	Projected Variables		
Model	Real GNP	Inflation (CPI)	Unemployment Rate
Wharton	3.2	5.5	9.7
Chase	3.0	5.2	10.0
UCLA	3.2	4.9	9.8
Evans	1.2	5.1	10.5
Consensus	3.1	5.3	9.6

Source: Blue Chip Indicators (November 10, 1982) Sedona, Arizona and Quarterly Model Outlook, Wharton Econometric Associates, Vol. 1, Number 10 (November 1982).

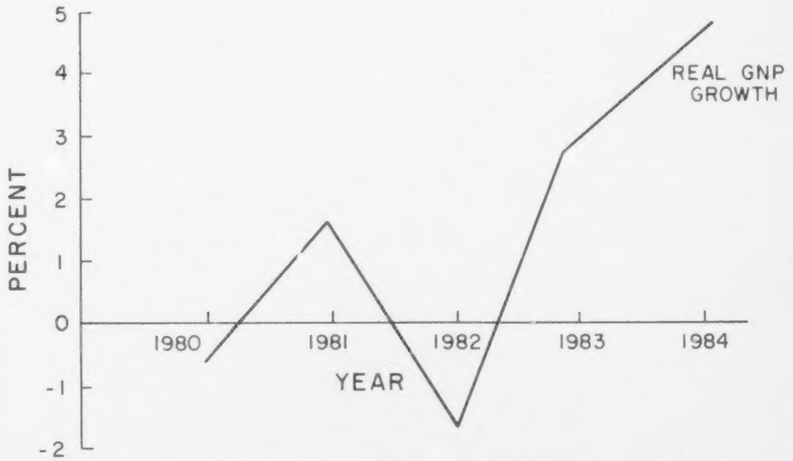


FIGURE 2. WHARTON FORECASTS OF REAL GNP

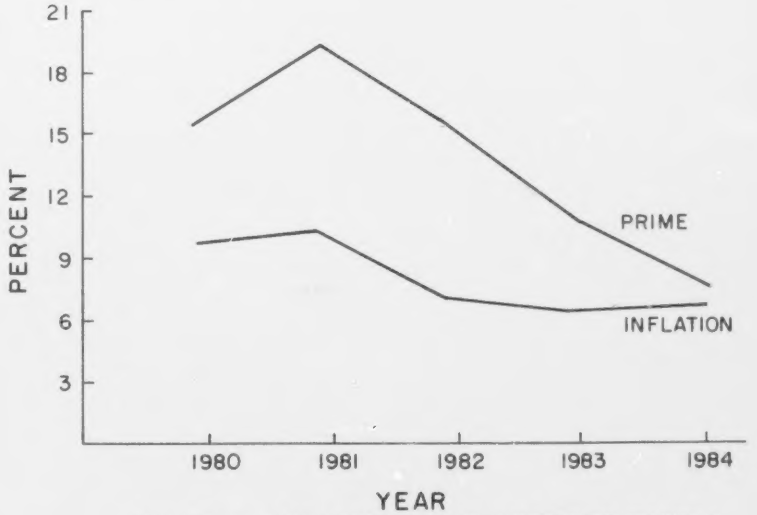


FIGURE 3. WHARTON PRIME INTEREST RATE & INFLATION FORECASTS

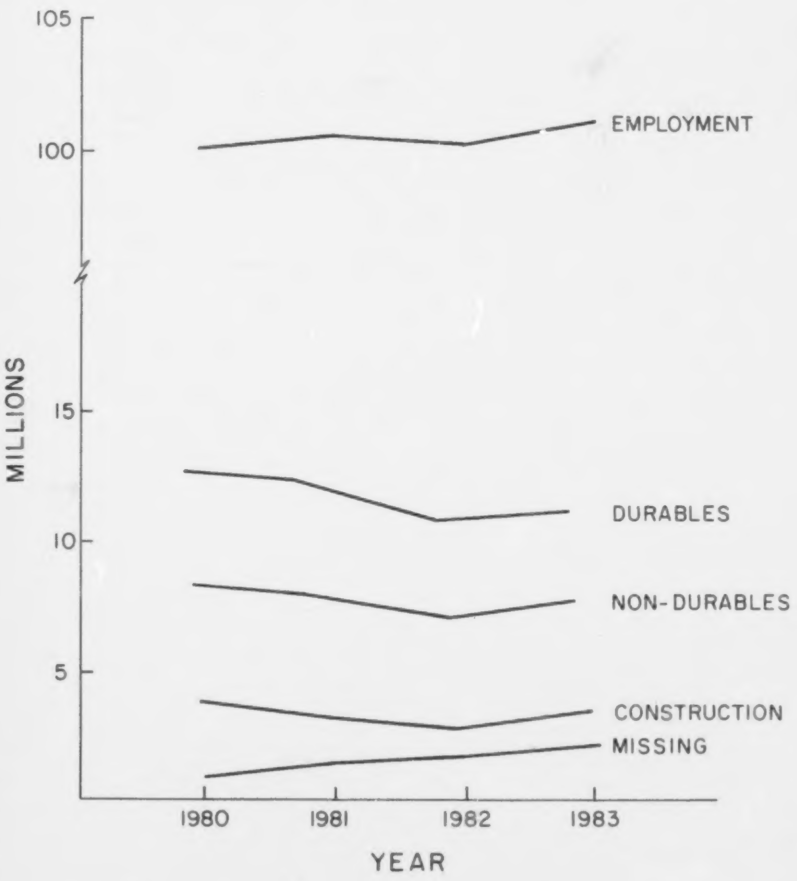


FIGURE 4. WHARTON EMPLOYMENT FORECASTS

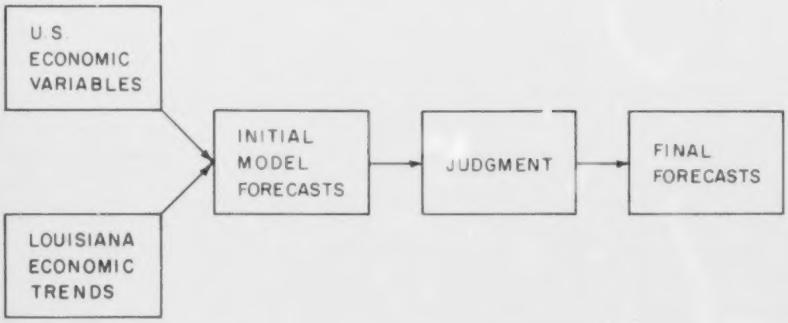


FIGURE 5. FORECASTING METHOD

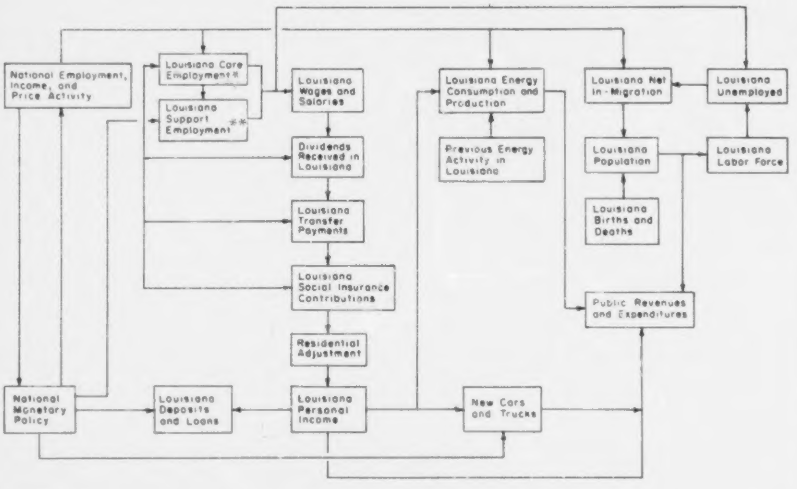
pecting the prime to fall continuously throughout 1983 and 1984. Inflation is expected to level off in the 6 percent range. Thus, the *real* interest rate (after adjustment for inflation) is projected to remain fairly high by historical standards, at least until late 1983. This will tend to hold back any major rebound in the interest sensitive sectors of the economy such as durable goods sales, home construction, and business investments in machinery, equipment, and buildings.

The results on national employment levels are revealed in *Figure 4*. Employment in construction, manufacturing of durables, and manufacturing of nondurables is expected to rise in 1983 and 1984, but not to return to the 1981 peak, even by 1984. This suggests an anemic recovery in these sectors. Mining employment is projected to rise continuously from 1981 through 1984. Total U.S. employment dips in 1982, but recovers in 1983 to approximately the 1981 level, and then rises again in 1984.

The Judgment Factor

Once the national projections are inserted into *Equation [1]*, an initial forecast for *EMD* in 1983 is generated. That may not, however, be the final forecast issued. Sometimes there are disruptions of past historical relationships which cannot be captured by an equation. Perhaps there will be a very large abrupt change in one of the variables on the right hand side of the equation, a change so large that it has no historical precedent. Or perhaps there are changes that occur due to state, local, or national legislation, such as a tax rate change. The effects of these changes must be determined by some other technique and the initial equation forecast adjusted accordingly. This element of judgment is used sparingly to retain the scientific foundation of the forecasts.

A schematic presentation of the general forecasting method is shown in *Figure 5*. Given the national projections from Wharton and historical trends in the Louisiana economy, equations are developed and used to generate the initial model forecasts.


National Employment, Income, and Price Activity
Louisiana Core Employment*
Louisiana Support Employment**
Louisiana Wages and Salaries
Dividends Received in Louisiana
Louisiana Transfer Payments
Louisiana Social Insurance Contributions
Residential Adjustment
National Monetary Policy
Louisiana Deposits and Loans
Louisiana Personal Income
New Cars and Trucks
Louisiana Energy Consumption and Production
Previous Energy Activity in Louisiana
Louisiana Net In-Migration
Louisiana Unemployed
Louisiana Population
Louisiana Labor Force
Louisiana Births and Deaths
Public Revenues and Expenditures

* Core Employment includes mining, manufacturing, transportation, and agriculture
** Support Employment includes trade, service, finance, construction, and government

FIGURE 6. LOUISIANA ECONOMETRIC MODEL

Where appropriate, these initial forecasts are altered by judgment to take into account abrupt variable changes, legislative changes, special information from industrial sources, and other extraneous factors. The result is the final forecast of the model.

Louisiana's Econometric Model

Equation [*1*] is just one equation designed to explain Louisiana employment in the durable goods industries. The entire econometric model at this stage of development contains more than 150 equations. The equations are simultaneous in nature, in that projections from one equation will often interact with projections from another.

The model is schematically illustrated in *Figure 6*. There are seven broad sectors where forecasts are made: (1) employment by two-digit standard industrial classification (*SIC*); (2) wage, salary, and proprietor's income in each two-digit *SIC* category; (3) total presonal income by major source; (4) population; (5) the financial sector; (6) the energy sector; and (7) the public sector. Initial work has also been done on an auto and truck sales sector.

Generally speaking the model flows in a series of steps:

1. National employment activity plus recent Louisiana trends are used to project Louisiana employment by two-digit *SIC* caterory.
2. The state employment forecasts in *step 1* are used to project state wage, salary and proprietor's income. To these variables are added state dividends, interest, and rental incomes plus transfer payments; and from these are subtracted social security contributions (all estimated from trends in similar U.S. variables). The result is total Louisiana personal income.
3. The state personal income becomes a major factor, in forecasting (a) bank and thrift deposits, assets, and loans; (b) electricity and natural gas consumption; (c) migration to the state; and (d) state tax receipts.

These three steps greatly oversimplify the number of variables involved in each equation and the interacting relationships, but they should offer the reader a basic overview of what occurs in the model. This three-step sequence also does not address the model's capability in the *energy production* area, which obviously depends heavily on such variables as the price of oil, the price of gas, and relative drilling costs which are largely determined at the national and international levels. *Figures 7* through *12* are flow chart diagrams of the model, which one can use to become familiar with the model operations at a more detailed level.

The Louisiana Outlook

The Louisiana Economic Model was used to make projections of economic activity at various levels for the years 1982 and 1983. These projections, along with actual data for 1980 and 1981 and annual average growth rate figures, are shown in *Tables 2* through *7*. Even though this article is being published in early 1983, projections are still required for 1982, since many of the final figures for that year will not be available until very late in 1983.[1]

These tables show that the Louisiana economic outlook reflects the Wharton model's projected sluggish recovery rate of the U.S. economy. The downswing in Louisiana lagged behind the national recession, but during 1982 Louisiana experienced the economic problems that appeared earlier in other states. For 1983 the recovery in Louisiana follows the U.S. recovery, though certain sectors of the state's economy remain stagnant.

Employment Projections

Table 2 contains the actual and projected figures for employment in Louisiana by two-digit *SIC* categories.[2] Total employment in 1982 in Louisiana is estimated to be 1,681,153, which is 39,137 less than total employment in 1981—a 2.3-percent reduction. This reduction is concentrated in the manufacturing and construction sectors, but it will also spread into support industries such as retail and wholesale trade, services, and finance.

In 1983 employment in Louisiana is projected to grow at 1.6 percent, up to 1,708,381 employed persons—still less than the 1981 employment total. It is interesting to note that the estimated national level of civilian employment will grow less than 1 percent in 1983.

BEST AVAILABLE COPY

TABLE 2
LOUISIANA EMPLOYMENT BY INDUSTRIAL SECTOR

Sector	Actual 1980	Actual 1981	Projected 1982	Projected 1983	Average Annual Growth Rate 1980-81	Average Annual Growth Rate 1981-82	Average Annual Growth Rate 1982-83
Farming	21,573	24,565	24,125	25,750	13.8	−1.8	6.6
Agricultural Services	6,895	7,381	7,011	7,165	7.0	−5.1	2.2
Mining	89,600	98,300	100,527	104,824	9.7	2.2	4.3
Contract Construction	138,000	138,500	132,470	138,708	0.4	−4.4	4.8
Manufacturing: Durables	103,100	109,300	101,712	101,426	6.0	−7.0	−0.3
Manufacturing: Non-durables	110,400	112,500	100,112	98,134	1.9	−11.0	−2.0
Retail Trade	256,500	264,400	258,310	262,640	3.1	−2.3	1.7
Wholesale Trade	102,700	105,700	104,660	106,265	2.9	−1.1	1.5
Finance, Insurance and Real Estate	74,699	78,330	77,272	78,597	4.8	−1.4	1.7
Transportation, Communications, and Public Utilities	124,800	130,700	133,357	138,405	4.7	2.0	3.8
Services	330,534	345,964	336,886	341,062	4.7	−2.7	1.2
Government: Federal	35,640	33,450	33,961	33,894	−6.2	1.5	−0.3
Government: State and Local	265,600	271,200	270,750	271,511	2.1	−0.2	0.3
TOTAL EMPLOYMENT	1,660,041	1,720,290	1,681,153	1,708,381	3.6	−2.3	1.6

Note: Data used are from the U.S. Bureau of Economic Analysis and are not strictly comparable to data issued by the Louisiana Office of Employment Security.

TABLE 3
LOUISIANA WAGE, SALARY, AND PROPRIETORS INCOME
(Thousands of Dollars)

Source	Actual 1980	Actual 1981	Projected 1982	Projected 1983	Average Annual Growth Rate 1980-81	Average Annual Growth Rate 1981-82	Average Annual Growth Rate 1982-83
Farm	369,617	364,892	358,141	373,430	−1.4	−1.8	4.3
Agricultural Services	104,614	114,869	124,000	139,220	9.6	7.9	12.2
Mining	2,317,416	2,910,498	3,346,892	3,764,981	25.6	15.0	12.5
Contract Construction	2,857,545	3,143,604	3,256,113	3,651,494	10.0	3.6	12.1
Manufacturing: Durables	2,121,630	2,508,037	2,458,350	2,647,009	18.0	−2.0	7.7
Manufacturing: Non-durables	2,585,776	2,958,961	2,903,269	3,071,716	14.3	−1.9	5.8
Retail Trade	2,636,133	2,927,650	2,968,616	3,154,981	11.0	1.4	6.3
Wholesale Trade	1,958,984	2,212,408	2,373,706	2,565,772	13.0	7.3	8.1
Finance, Insurance and Real Estate	1,213,383	1,368,952	1,443,978	1,547,479	12.8	5.5	7.2
Transportation, Communications, and Public Utilities	2,770,071	3,122,294	3,572,568	3,958,766	12.7	14.4	10.8
Services	4,252,676	4,933,168	5,883,972	6,612,159	16.0	19.3	12.4
Government: Federal	1,067,601	1,172,528	1,232,520	1,306,691	9.8	5.1	6.0
Government: State and Local	3,162,650	3,589,377	3,835,078	4,094,175	13.5	6.9	6.8

TABLE 4
LOUISIANA PERSONAL INCOME BY MAJOR SOURCE
(Thousands of Dollars)

Sector	Actual 1980	Actual 1981	Projected 1982	Projected 1983	Average Annual Growth Rate 1980-81	Average Annual Growth Rate 1981-82	Average Annual Growth Rate 1982-83
Wage and Salary Income	27,418,096	31,321,238	33,757,203	36,887,873	14.2	7.8	9.3
Dividends, Rent, Interest	5,311,640	6,339,772	7,561,457	8,120,268	19.4	19.3	7.4
Transfer Payments	4,454,012	5,061,093	5,464,089	6,014,621	13.6	8.0	10.1
Less Social Insurance Contributions	1,408,297	1,715,633	1,787,142	1,903,454	21.8	4.2	6.5
Personal Income	35,767,650	41,001,740	44,154,750	48,190,190	14.7	7.7	9.1
Real Personal Income	20,021,400	20,969,800	21,455,200	22,269,000	4.7	2.3	3.8

Note: Components may not add to Personal Income due to rounding and the residence adjustment factor.

As a matter of fact, the data throughout these tables indicate that the Louisiana economy *has not been hit quite as hard* by the recession as the nation in general.

Manufacturing employment is projected to decline in 1982, and to continue to drop again in 1983, although at lower rates. In essence, *the forecast for 1983 is for manufacturing to remain relatively stagnant in Louisiana.* This is due to the combination of a very modest increase in manufacturing activity at the national level and a tendency for Louisiana manufacturing to lag slightly behind the nation during economic recoveries. In addition, Louisiana's manufacturers, especially the petrochemical group, are facing increasing competition throughout the world. Putting all of these events together, the national recovery would have to be *exceptional* for Louisiana manufacturers to enjoy a vigorous recovery in 1983.

Construction, mining, and transportation employment—the other core industries in the state—are projected to rise in 1983. Construction in Louisiana *will pick up* due to falling interest rates and increased activity in the mining sector. The lethargy in manufacturing activity, however, will tend to dampen the recovery in construction. Transportation employment has increased very rapidly since the mid-1970s and this growth is projected to continue in 1983. In fact, the estimated 1982 growth of 2.0 percent is the *slowest* growth in transportation employment since 1976.

Support industries can be defined as industries that primarily cater to Louisiana customers. Growth in these sectors depends heavily on employment trends in the core industries discussed above. Thus, these support industries depend heavily on the overall vitality of the state's economy and not so much on movements by their counterparts at the national level. Given the declining employment in the manufacturing sectors of the Louisiana economy, these supporting sectors are estimated to be very weak in 1982 and are projected to grow very slowly in 1983.

Federal, state, and local government employment is expected to be stable in 1982 and 1983. No major policy changes have been incorporated into the forecasting model that would allow for a significant rise or fall in this category.

Income Estimates

Actual and projected data for this income group are given in *Table 3*. In the model, wage, salary, and proprietor's income in each two-digit *SIC* category depends on employment in the particular industry and on the prices of the products and services sold. The next-to-last column in this table reveals that income will rise in most industries in 1982 despite the employment drops projected in *Table 2*. This is because the positive influence on income of price increases will more than offset the negative affects of the employment declines.

Notice that the price impacts are especially pronounced in the services industry, where income is expected to rise some 19.3 percent in 1982, even though employment is expected to fall by 2.7 percent. Inflationary tendencies have historically been more important than employment in affecting service income and, in fact, the costs of some of these services have outstripped the growth in the general price level.

The only areas expected to feel a drop in income in 1982 will be the manufacturing sector, where employment declines are projected to be too severe to be offset by price increases; and farm income, which is experiencing both employment and price declines.

For 1983, positive income growth is expected in all sectors, with the services, mining, construction, and agricultural services sector leading the pack. Especially strong growth should also occur in the transportation/communications/public utilities industry.

Table 4 contains the data on Louisiana personal income by major source. The data in the first row are tabulated from *Table 3*. Wage, salary, and proprietors income is far and away the largest of the major income categories.

Dividends, rent, and interest income is projected to enjoy strong growth in both 1982 and 1983. High interest rates in 1982 and a recovering economy in 1983 serve to bolster this income source. Too, a continuing depressed housing market has forced more and more individuals into apartments, thus driving up rental income.

Transfer payments, which include welfare and social security payments, are expected to grow in 1982 and 1983, but at slower rates than in 1981. This slowdown in growth can be attributed to a number of factors: (1) the size of most transfer payments are tied to the consumer price index (*CPI*), so as the *CPI* growth rate falls, so will the growth in transfer payments; (2) as the economy recovers, more individuals will not require public assistance; and (3) legislated cuts at the federal level may have reduced the rate of growth in those payments.

According to *Table 4*, nominal personal income is forecasted to grow at a 7.7 percent rate in 1982 and by 9.1 percent in 1983. However, if one adjusts these figures for expected inflation, real personal income is projected to grow by only 2.3 percent in 1982, and at a faster, but still modest, 3.8 percent rate in 1983. It is worth mentioning that the comparable numbers for growth in U.S. real personal income are expected to be 0.5 percent and 3.0 percent, respectively. This, again, points to the tendency of Louisiana not to be hit as severely by the recession as the rest of the nation.

Population and Per Capita Income

In *Table 5*, population and per capita income figures are presented. The model predicts that population growth rates will slow considerably in 1982 and 1983 from their 1981 performance. The primary reason for this is basically economic. An important factor in the state's population growth is net migration, that is, the number of people who migrate to Louisiana from other states. In 1981, because the Louisiana economy was doing quite well, relative to its sister states, many people migrated to Louisiana to find work—particularly in the oil fields of South Louisiana. But as the price of oil has fallen and drilling activity has receded, and as the impact of the national recession finally had its impact on the state, this migration trend should slow considerably, which will lead to a lowering in Louisiana's population growth rate in 1982 and 1983.

In per capita terms, real income in 1982 is expected to fall, while nominal income will rise by 6.2 percent. For 1983 per capital real income is projected to rise by 2.4 percent, with nominal per capita income projected to rise by 7.7 percent.

Finance Forecast

Table 6 contains the model forecast for the financial sector of the Louisiana economy. As *Figure 10* illustrates, deposits, loans, and asset levels in bank and thrift institutions are dependent primarily on the behavior of Louisiana personal income, interest rates, and Federal Reserve monetary policy. Given the slowdown expected in Louisiana personal income, growth rates in deposit, asset, and loan activity in commercial banks in deposits and loans at banks will pick up in 1983, as the state economy begins to recover. The model projects that the recovery will put pressure on banks to use their deposits more on funding loans (up 11.7 percent) rather than on security purchases (up only 4.4 percent) in 1983.

Deposits and asset levels at thrift institutions are not expected to grow as fast in 1982 as those same factors in the banking industry. However, as interest rates continue to fall gradually, and as the housing industry begins to recover, thrift deposit and asset growth is expected to rebound in 1983.

Energy Components

The energy sector of the model has two components, a production sub-sector and a consumption sub-sector. Energy projection in Louisiana refers to oil and natural gas production. Both of these resources have been declining since the early 1970s. In 1982 this decline is expected to continue, with a 0.8 percent drop in natural gas production and a 2.5 percent drop in oil and condensate output. In 1983 natural gas is predicted to fall by 3.0 percent, but oil/condensate production is projected to stabilize at around 187 million barrels per year.

It should be emphasized that this leveling in oil and gas production is not expected to signal the beginning of a new trend. The model bases energy production in a given year on the level of drilling activity experienced approximately two years earlier. Thus, the projected leveling in output shown in *Table 7* is primarily based on the relatively high drilling levels of 1980 and 1981. However, notice that the model is predicting a noticeable drop in drilling activity in 1982 and 1983; leading one to expect a resumption of production declines in 1984 and 1985, unless sizeable increases in the price of oil or natural gas lead to a resurgence in drilling activity. Electricity and natural gas consumption are predicted to decline in 1982 and remain very stable in 1983.

The 1982 declines are based on the rising prices of these products and on the stagnant state economy. The 1983 projections suggest some moderation in these declines, when the restraint imposed by rising real prices will be particularly offset by the effects of a recovering economy. Commercial and industrial electricity consumption is, by far, the sector most sensitive to price and economic activity changes according to the model. This is revealed by a dramatic expected reduction in electricity usage in 1982, and a further small drop in 1983.

TABLE 5
LOUISIANA POPULATION AND INCOME PER CAPITA

Sector	Annual		Projected		Average Annual Growth Rate		
	1980	1981	1982	1983	1980-81	1981-82	1982-83
Population (thousands)	4,214.6	4,307.8	4,369.8	4,427.7	2.2	1.4	1.3
Nominal Income Per Capita	$8.488	$9,517	$10,104	$10,883	12.1	6.2	7.7
Real Income Per Capita (1972 prices)	$4,751	$4,868	$ 4,910	$ 5,029	2.5	−0.8	2.4

TABLE 6
LOUISIANA FINANCIAL DATA
(Thousands of Dollars)

Sector	Actual		Projected		Average Annual Growth Rate		
	1980	1981	1982	1983	1980-81	1981-82	1982-83
Commercial Banks:							
Total Deposits:	21,080.140	23,829,580	25,911,874	28,258,265	13.0	8.7	9.1
Total Assets	24,796,800	28,401,760	31,018,115	33,920,633	14.6	9.2	9.4
Total Loans	12,809,660	14,784,420	15,967,585	17,840,072	15.5	8.0	11.7
Securities	6,914,805	7,622,252	8,308,113	8,670,740	10.2	9.0	4.4
Savings and Loan Institutions:							
Savings Deposits	7,310,909	7,787,000	8,296,000	9,272,400	6.5	6.5	11.8
Total Assets	8,455,735	9,140,000	9,752,400	10,915,300	8.1	6.7	11.9

Summary

The forecasts contained in *Tables 1* through 7 reveal a state economy weakened in 1982 by a combination of falling oil prices and a national recession. The 1983 outlook is for a better experience than in 1982, though the expected growth can hardly be called spectacular. Employment gains should be very modest, but real income gains should be more substantial. Some sectors will do well, but on the average, the state will not return to the high employment status it achieved in 1981.

This Louisiana econometric model is the result of a fifteen-month effort of building data bases, constructing equations, and establishing the interlocking nature of the model. Funding for this first stage of the model was provided by a $65,000 grant from the Louisiana Board of Regents under its research and development program.

The model needs further refining. As we have worked with it, certain problem areas have arisen that we know need addressing. For example, initial projections were made for the loan mix in both bank and thrift institutions. These failed to perform properly and are being reworked. Furthermore, the model was presented to the public at an open conference in December 1982, where numerous helpful comments, offered by the meeting's participants, have been used to further refinement. As a result, future initial model projections will be presented to a panel of experts from each representative area for input before releasing a final forecast. In addition to these refinements, further additions to the model are under development.

In the first half of 1983, the energy sector will be expanded under a $17,500 grant from LSU's Center for Energy Studies. A proposal also has been turned in to the Board of Regents for the development of models for the state's major cities, and to examine finer industry level activity below the two-digit *SIC* categories—such as furniture and fixtures, petroleum refining, primary metals, and so forth.

Hopefully, through efforts such as these, we will be able to understand our state economy more fully and be able to predict its future course more accurately, with the objective of offering both the private and public sectors better information with which to make decisions.

JAMES A. RICHARDSON is an associate professor of economics at LSU, Baton Rouge. His research interests include national economic policy, as well as state and local financial issues. LOREN C. SCOTT is the associate director of the LSU Division of Research and a professor of economics. His research interests include energy, labor economics, and the Louisiana economy. A. M. M. Jamal is a research economist for the Division of Research. He currently is studying the impact of coal exports through Louisiana and is involved in the development of the Louisiana Occupational Information System for the State Department of Labor.

□

TABLE 7
LOUISIANA ENERGY PRODUCTION AND CONSUMPTION

Sector	Actual		Projected		Average Annual Growth Rate		
	1980	1981	1982	1983	1960-81	1981-82	1982-83
Energy Supply							
Natural Gas Production[a]	2,756	2,549	2,528	2,451	-7.6	-0.8	-3.0
Oil and Condensate Production[b]	215,500	204,000	187,631	187,196	-10.8	-2.5	0.2
Producing Oil Wells	21,885	22,966	24,193	24,897	5.0	5.3	2.9
Producing Gas Wells	12,188	13,262	13,987	14,602	9.1	5.5	4.4
Active Rigs (monthly average)	427	456	400	390	6.8	-12.3	-2.5
Energy Consumption							
Electricity:[c]							
Residential	17,820	18,652	17,742	18,294	4.5	-4.9	3.4
Commercial and Industrial	37,890	38,039	31,109	30,763	0.5	-18.2	-1.1
Natural Gas:[d]							
Residential	73,093	80,065[E]	77,870	77,015	9.5	-2.7	-1.1
Commercial	27,651	28,205[E]	27,359	27,167	2.0	-3.0	-0.7
Industrial	1,422,947	1,465,635[E]	1,478,826	1,501,008	3.0	0.9	1.5

Notes:

[a] billions of cubic feet
[b] thousands of barrels
[c] millions of kilowat hours
[d] millions of cubic feet
[E] Estimates

---

[1] The projections described in this section are not precisely the same as those given at our conference held at LSU on December 7, 1982. Revisions were made to forecasting equations and final forecasts were based on helpful comments made by participants at that conference.

[2] The actual figures shown, which form the basis for the forecasts, are from the U.S. Bureau of Economic Analysis. These data are *not* strictly comparable to those released each month by the Louisiana Office of Employment Security.

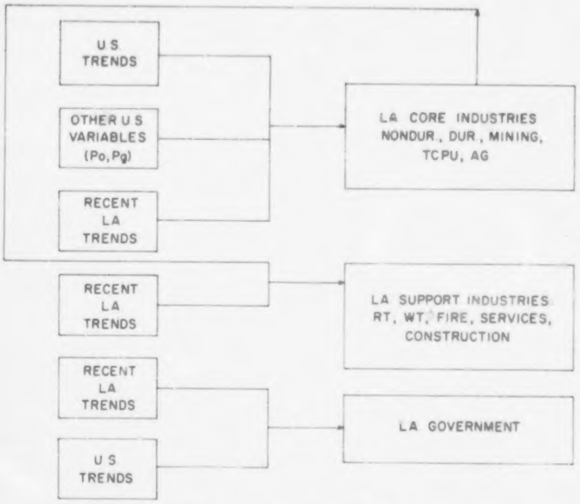

U.S. TRENDS
OTHER U.S. VARIABLES (Po, Pg)
RECENT LA TRENDS
LA CORE INDUSTRIES NONDUR., DUR., MINING, TCPU, AG
RECENT LA TRENDS
LA SUPPORT INDUSTRIES RT, WT, FIRE, SERVICES, CONSTRUCTION
RECENT LA TRENDS
U.S. TRENDS
LA GOVERNMENT

FIGURE 7. LOUISIANA EMPLOYMENT

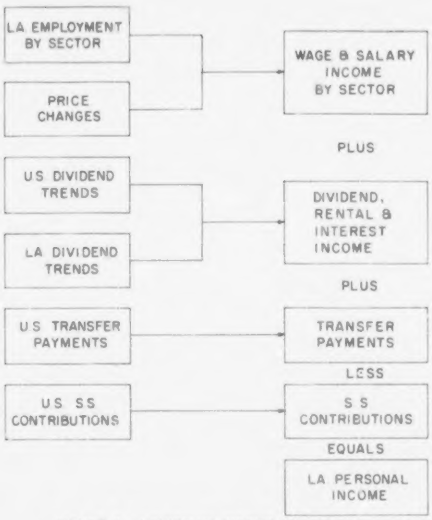

LA EMPLOYMENT BY SECTOR
PRICE CHANGES
WAGE & SALARY INCOME BY SECTOR
PLUS
U.S. DIVIDEND TRENDS
LA DIVIDEND TRENDS
DIVIDEND, RENTAL & INTEREST INCOME
PLUS
U.S. TRANSFER PAYMENTS
TRANSFER PAYMENTS
LESS
U.S. SS CONTRIBUTIONS
S.S. CONTRIBUTIONS
EQUALS
LA PERSONAL INCOME

FIGURE 8. LOUISIANA INCOME BY SOURCE

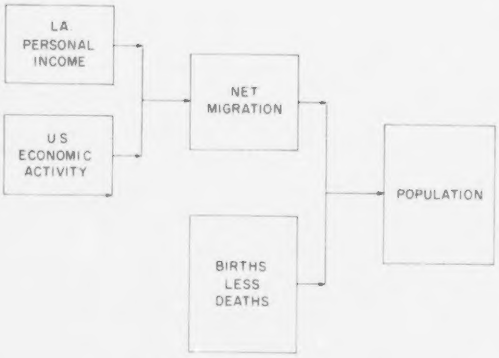

LA PERSONAL INCOME
U.S. ECONOMIC ACTIVITY
NET MIGRATION
BIRTHS LESS DEATHS
POPULATION

FIGURE 9. POPULATION

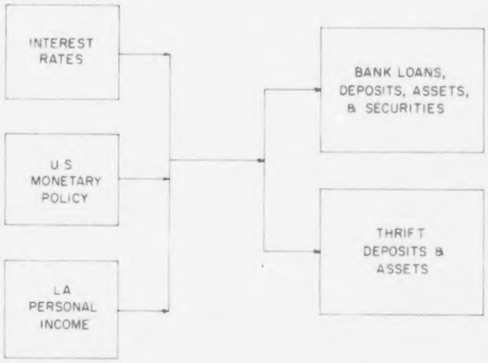

INTEREST RATES
U.S. MONETARY POLICY
LA PERSONAL INCOME
BANK LOANS, DEPOSITS, ASSETS, & SECURITIES
THRIFT DEPOSITS & ASSETS

FIGURE 10. FINANCIAL SECTOR

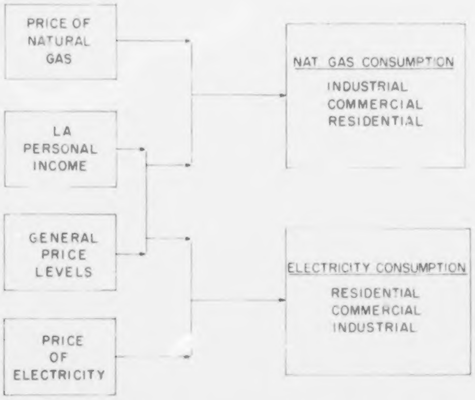

PRICE OF NATURAL GAS
LA PERSONAL INCOME
GENERAL PRICE LEVELS
PRICE OF ELECTRICITY
NAT. GAS CONSUMPTION
INDUSTRIAL
COMMERCIAL
RESIDENTIAL
ELECTRICITY CONSUMPTION
RESIDENTIAL
COMMERCIAL
INDUSTRIAL

FIGURE 11. ENERGY CONSUMPTION

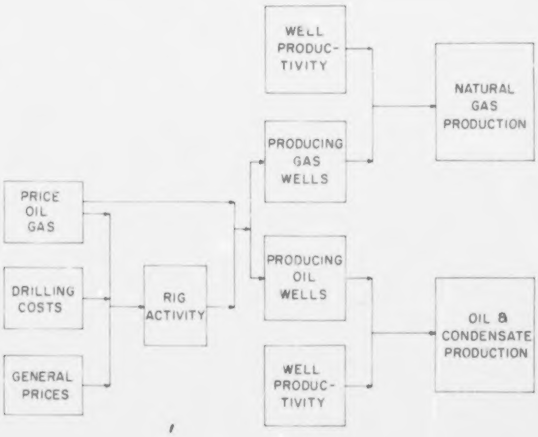

WELL PRODUCTIVITY
PRODUCING GAS WELLS
NATURAL GAS PRODUCTION
PRICE OIL GAS
DRILLING COSTS
GENERAL PRICES
RIG ACTIVITY
PRODUCING OIL WELLS
WELL PRODUCTIVITY
OIL & CONDENSATE PRODUCTION

FIGURE 12. ENERGY PRODUCTION

NATIONAL NEWS

Major Changes Eyed for Feds

A new bill has introduced Congressional legislation which would consolidate the regulatory functions of the *Interstate Commerce Commission, Federal Maritime Commission,* and the *Civil Aeronautics Board* into a new single regulatory agency.

The bill would ease many of the freight restrictions imposed on the multimodal ownership of transportation companies. The Department of Transportation, which is not in accord with the idea of a super transport agency, is considering asking the Congress for legislation to totally deregulate the freight forwarder industry, except for safety and insurance requirements, with provision for all antitrust immunity for trucking industry rate making to be eliminated as well.

In three recent decisions the Interstate Commerce Commission voted to exempt export coal, boxcar traffic and most agricultural commodities moving via rail from rate regulation. If these decisions withstand court review, rail rates will no longer have to be filed with the agency. Barring an anticipated court stay, the export coal decision will go into effect ninety days after the decision is issued by the agency, with the boxcar decision going into effect six months after it is served by the commission. The commission also exempted farm products, except grain, soybeans and sunflower seed, from economic regulation in a related decision, in an attempt to allow railroads to compete more effectively with truckers, who are already exempt from regulation.

What's that Paper Worth?

People completing four years of college can expect lifetime earnings averaging nearly 40 percent higher than high school graduates, according to a report issued by the U.S. Commerce Department.

Men with four years of college should expect lifetime earnings between $1.190 million and $2.750 million, while male high school graduates can expect from $860,000 to $1.870 million. Lifetime earnings for women with four years of college should be $520,000 to $1.120 million, while the range for women high school graduates is from $380,000 to $800,000. All figures are for money earned between the ages of 18 and 64 and are expressed in 1981 dollars.

Copies of the report, *Lifetime Earnings Estimates for Men and Women in the United States: 1979,* Series P-60, No. 139 (GOPO Stock No. 003-001-90725-9), are available for $4.50 each prepaid from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 or from Commerce district offices in major cities.

Battle Against Math Illiteracy

A new program called *MATHCOUNTS* is the first nationwide effort of education, industry, and the engineering profession to combat the growing problem of math illiteracy. The program is being sponsored by the National Society of Professional Engineers, the National Council of Teachers of Mathematics, the CNA Insurance Companies and the National Science Foundation.

In the next few months U.S. junior high teachers will receive *MATHCOUNTS* kits from local chapters of the engineering society and CNA which explain the combination coaching program and contests. Local affiliates of the math teacher's council will assist in organizing schools. The National Science Foundation will make its data bases available and will facilitate government contacts for the participants.

Beginning this September and through the school year, as many as 5.8 million seventh and eighth grade students can enter the *MATHCOUNTS* program and have the opportunity to be coached in accelerated math topics such as probability and statistics, linear algebra and polynomials. They will then be able to participate in a series of competitions at local, state and national levels in Spring of 1984. Students will compete individually and in teams in both oral and written exams. Winners will receive prizes and trips to Washington, D.C. for the national finals, funded by CNA and the National Society of Professional Engineers.

Washington to Get World Trade Center

Construction of the *Bay of the Americas*, a $586 million world trade center and multi-purpose complex, to be located ten minutes from downtown Washington, D.C., will begin this summer. The World Trade Center will be located in the 400-acre complex as part of the 1.6 million square feet of high rise office space. The new facility will provide space for importers and exporters, international product and food displays, freight forwarders and brokers, international banks, airlines and shipping companies, travel agents, and for foreign governments interested in expanding markets for their goods and tourism.

America on the Move

Nearly half of the U.S. population changed homes between 1975 and 1980, tabulations from the 1980 *Census* show. Statistics compiled by the Commerce Department's Census Bureau indicate that of the 210 million Americans five years old and more, nearly 94 million—about 44.5 percent—had changed residence between 1975 and 1980. About 25.1 percent had moved within the same county, 9.8 percent to another county

(continued on page 29)

COLLEGE HIGHLIGHTS

Alumni Receive Recognition

Three alumni of the Louisiana State University chapter of *Beta Alpha Psi*, the national accounting fraternity, received *Accountants of the Year* awards at the recent national fraternal meeting held in San Diego.

Louisiana State University's winners included **Dr. Doyle Z. Williams,** dean of the School of Accounting, University of Southern California, education division award; **Paul LeBlanc,** chairman of the Board of Arthur Anderson & Co., public accounting division award; and **A. L. Monroe,** president of Esso Inter-America, was recognized in the field of industry.

Dr. Jerry E. Trapnell, faculty advisor to the LSU chapter, said it was the fifth consecutive year the LSU chapter received a superior rating from the national organization. The superior rating is the top recognition given at the annual meeting and is based on participation in professional meetings, field trips, social, and community service activities.

Recent College Awards and Publications

Stephen Looney, assistant professor in the department of Quantitative Business Analysis, has been awarded a summer faculty research grant from the Louisiana State University Council on Research. The project will entail the development and application of a new technique for risk estimation.

Kenneth N. Orbach, associate professor of accounting, was among the sixty-nine noted tax professors attending the Eighth Annual Faculty Symposium sponsored by Arthur Andersen & Co., an international public accounting and consulting organization. The symposium was held in November at the firm's Center for Professional Education, St. Charles, IL.

Shirley A. White, assistant professor in Business Communications and Office Systems, wrote *"An Analysis of Secretarial Employment Ads with Implications for Curricular Modification,"* published in the January 1983 issue of the *Journal of Business Education*.

Instructor of Business Communications and Office Systems **M. Agnes Titkemeyer,** co-author with **Steven Golen, Jack D. Eure,** and **Celeste Powers,** had *"How to Teach Conflict Resolution in a Basic Business Communication Class,"* printed in the American Business Communication Association's September bulletin.

Joseph F. Hair, chairman of the Department of Marketing, recently published his textbook, *Sales Management*, with Random House's Business Division.

Marketing Department Assistant Professor **Marsha L. Richins** had her article, *"Negative Word-of-Mouth by Dissatisfied Consumers,"* published in the Winter 1983 issue of the *Journal of Marketing*.

Sharon Grimes and **Michael Petruny,** doctoral candidates in the Department of Marketing, won the *Best Doctoral Paper* award recently at the Southwestern Federation of Administrative Disciplines convention in Houston, for their co-effort, *"Perceptual Mapping of Sport Shirts: Differences Between Functionally Identical Products."*

LSU Gets LBA Research Grants

The *Louisiana Bankers Association*, long-time supporter of the College of Business Administration, is providing two permanent summer research grants for the finance department, arranged through the efforts of **Dr. William F. Staats,** Louisiana Bankers Association professor of banking at the University. These grants will allow two regular faculty members to devote the summer to research projects.

According to Staats, the demand for LSU banking graduates continues to increase despite the general economic slowdown across the nation. Staats reported in *les nouvelles*, the College of Business Administration in-house publication, that a record number of banks are recruiting during this school term.

A significant number of banking institutions have sought to hire LSU banking graduates in recent years, said Staats, adding, "the quality of LSU graduates has become more widely known and appreciated in the banking field which is concurrent with the banking institution's expan-

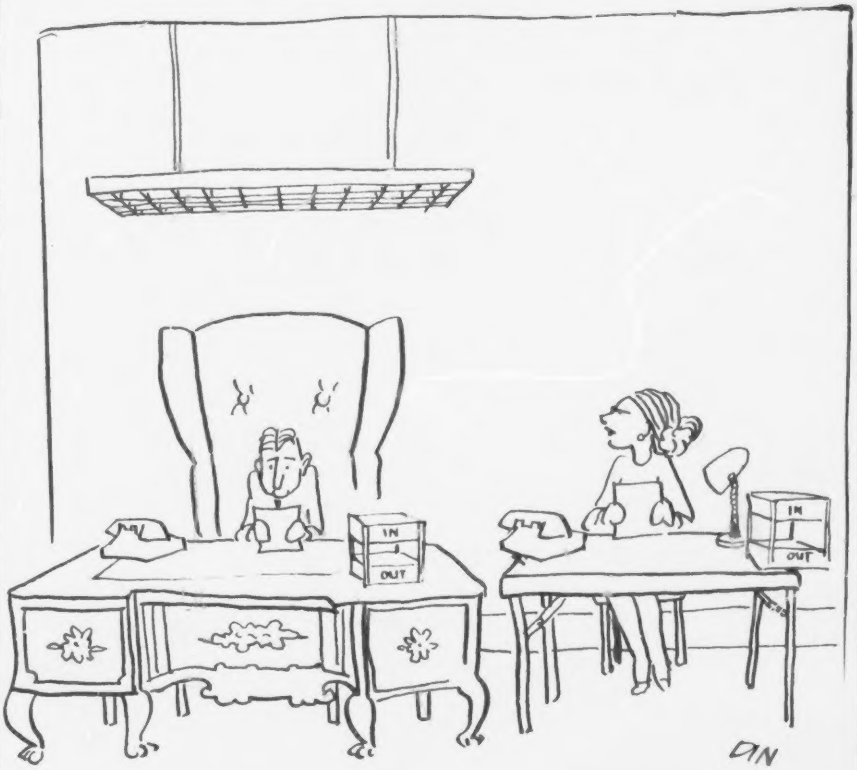
(continued on page 29)

Maynard M. and Carolyn C. Dolecheck

FORUM

Sex Discrimination in Company Management

American women are guaranteed by our laws protection from sex discrimination in employment. Why then do women usually lag behind their male counterparts in both salaries and promotions?



The Equal Pay Act of 1963 and the Civil Rights Act of 1964 were enacted to eradicate sexual discrimination in employment. The objectives of the Equal Pay Act of 1963 were to ensure that women would have job opportunities equal to men and that women would receive equal pay for equal work. In addition, the Civil Rights Act, as amended, prohibits discrimination because of sex (as well as race, color, religion, or national origin) in all employment practices, including hiring, firing, promotion, compensation, and other terms, privileges, and conditions of employment. However, the national earnings gap between men and women remained unchanged from 1967 to 1978,[1] and recent data show that women continue to lag well behind men in employment status.[2]

A college education for a woman does little to change the salary gap; in 1978 women with four years of college earned about the same as men with one to three years of high school.[3] These women earning college degrees have in the past typically majored in areas other than business and thus were employed in low-paying jobs such as teaching and nursing; however, this trend is changing dramatically.

A recent survey by the College Board, a school systems group, revealed that women's interest in business has tripled since 1973, and more female than male high school seniors show an interest in studying business in college. This interest is reflected today in the number of women who are enrolling in collegiate schools of business. As an example, for the past two years (1980-1982) more than half of the graduates of the Northeast Louisiana University College of Business Administration were women; and this trend is evident at other universities. These women graduates are typically career oriented, aware of their rights, and ambitious.

Purpose and Design of Study

With these facts in mind, the authors proposed to determine if salary and promotion discrimination practices are applied toward women with bachelor's degrees in business, and to identify possible organizational problems resulting from such discrimination. In addition, recommendations for removing company barriers to women and establishing self-help programs were considered.

As the first step toward isolating employment economic differences of male and female graduates, beginning salaries had to be compared. Sketchy data for the academic years 1980-81 and 1981-82 from the Placement Bureau at Northeast Louisiana University indicate that women and men with college of business degrees with similar majors start their jobs at comparable salaries. Therefore, the question became: "Does employment discrimination of women occur after they are on the job?"

To seek an answer, a questionnaire was distributed in the summer of 1982 to random samples of 600 men and 600 women who had graduated from the Northeast Louisiana University College of Business Administration (an AACSB-accredited school with more than 2,000 students) during the sixteen-year period from 1966-1981. The initial mailing and a follow-up resulted in a 30-percent usable response (unemployed respondents were excluded from the study). These graduates were asked questions pertaining to income, type of job, sex, geographic location, and length of time on the job since graduation.

Survey Results

The data in the following sections reveal the extent of salary and job level disparities due to sex. As 73.4 percent of the respondents are employed in Louisiana and 92 percent in the South, the conclusions are most applicable to Louisiana in particular and the South in general.

Median income figures of the male and female respondents controlling for time in the workforce since graduation, shown in *Table 1*, reveal that the median annual income of women, compared with that of men, is $3,339 less for those employed fewer than three years. The differential becomes progressively greater as time on the job increases. At twelve-years-or-more in the workforce since graduation, the differential is $15,667. While seniority for a woman may be the same as for a man, discontinuous work experience due to child bearing and rearing could hinder a woman's advancement in an organization. The researchers doubt that such a factor could explain more than a little of the differential.

The differential of $3,339 in median salaries of men and women on the job fewer than three years is difficult to explain if starting salaries are in fact nearly the same. Either the figures compiled by the NLU Placement Office are inaccurate or men are receiving substantial raises, shortly after initial employment, that women are not. Regardless of the reason, the significant finding is that male respondents are earning more than women; and the differential increases dramatically with length of time on the job.

Table 1
MEDIAN ANNUAL INCOME OF MALE AND FEMALE CBA GRADUATES CLASSIFIED BY TIME IN THE WORKFORCE SINCE COLLEGE GRADUATION
July, 1982
(322 Respondents)

	Time in Work Force					
Sex	0 to 3 Years	3 to 6 Years	6 to 9 Years	9 to 12 Years	12 or more Years	All Years
Male	$19,714	$22,000	$28,000	$33,500	$40,667	$27,684
Female	$16,375	$17,333	$20,000	$20,000	$25,000	$18,000

Table 2
MEDIAN ANNUAL INCOME OF MALE AND FEMALE CBA GRADUATES CLASSIFIED BY JOB TITLE
July, 1982
(332 respondents)

	Job Title					
Sex	Top Mgt.	Middle Mgt.	First Line Supervisor	Staff/ Technical	Sales	All Titles
Males	$41,333	$30,400	$24,800	$22,000	$24,500	$27,684
Females	$22,000*	$19,333	$18,500	$17,455	$16,000	$18,000

*Only 6 females in top management level.

Median annual incomes of males and females compared by job titles or level are also revealing. As depicted in *Table 2*, the differential in median income is $6,300 for first-line supervisors and continues to widen at higher managerial levels. That the differential is smallest for staff and technical jobs ($4,545) is particularly significant since this classification includes women working in clerical and secretarial jobs, which traditionally have been low paying. The low pay usually has been attributed to the fact that clerical and secretarial jobs are dominated by females.

Job-Level Differences

In an attempt to determine if promotion discrimination exists and to compare types of jobs held by men and women, *Table 3* shows the relationship of job titles for male and females, for different lengths of time on the job since graduation from college. For respondents who have been on the job fewer than three years, 25 percent of the males, compared to 9.8 percent of the females, classify themselves as middle managers or above. While the percentage of both male and female respondents classifying themselves as middle manager or above increases with time on the job, the differential in percentages by sex remains nearly the same.

On the other hand, for respondents who have been on the job fewer than three years, 78.7 percent of the females classify themselves in staff and technical jobs, while only 53.1 percent of the males indicate this classification. In comparison, for respondents who have been on the job nine or more years, only 13.8 percent of the men, compared with 45.8 percent of the women, are in staff and technical positions.

Job titles may be misleading, however. Research by Patty G. Campbell indicates that 36 percent of women in middle management positions believe their job titles do not accurately reflect their duties.[4] Furthermore, certain types of jobs may be reduced in importance. Hiring women as managers in areas such as public relations and personnel—typically staff functions—almost always prevents them from moving into the more established and powerful line functions of sales, finance, and production. This tactic can be viewed as a way of accommodating demands for female promotion while avoiding real challenges to male domination. "There are many ingenious ways to disguise discrimination in hiring and promotion,"[5] says J. H. Foegen.

According to this data, salary and job-level disparities are readily apparent and this discrimination seems to exist for female CBA graduates. Discrimination is less likely to occur with beginning salary offers. However, once these business graduates are on the job, the salary differentials of males and females widen and men occupy upper-level management positions and women dominate staff and technical positions. These conclusions are based upon quantitative data pertaining to salaries, job levels, and time on the job since graduation, with educational levels and geographical location of work being nearly the same for both sexes.

The researchers acknowledge that other factors such as ambition, assertiveness, and job continuity (which are difficult to measure) could have some effect on salaries and job levels of both sexes. However, they realize that, historically, employment disparities have resulted from discriminating practices toward women.

Recommendations

Apparently laws designed to require companies to make job-related decisions with regard to sex are ineffective. Organizations do not seem to be overly concerned about legal action from women who are not promoted and given raises equal to those of men.

From a self-interest point of view, however, management which is male-dominated must change such attitudes if organizations are to increase productivity and profitability. Firms must recognize that women who are unhappy with their treatment often quit their jobs rather than file a complaint. The 1981 Dolecheck study revealed that 25 percent of all female respondents knew of someone who had left her company in the previous three years because of discriminatory treatment.[6] Such turnover is costly to a firm. Even if a women chooses not to quit during times of high unemployment, emotional frustrations are likely to result in lower productivity.

What must be done to hasten the snail's pace of female progress in business? Basically, two approaches should be used:

1. Organizational barriers to female advancement must be removed; and,
2. Women must be made aware of individual self-help programs which they must pursue if they are to advance.

Removal of Barriers

First, top management must make a total commitment to removing all barriers to the advancement of women. Companies with good records of promoting women always have a strong commitment from top management. This attitude must permeate all levels of the organization.

Second, an organization should conduct an internal audit of what it is doing to achieve the goal of equal treatment of its female employees. The following questions (among others) should be answered before

Table 3
RELATIONSHIP BETWEEN JOB TITLE AND SEX CONTROLLING FOR TIME ON JOB SINCE GRADUATION

	Time on Job and Sex									
	0 to 3 Years		3 to 6 Years		6 to 9 Years		9 or more Years		All Years	
Job Title	M	F	M	F	M	F	M	F	M	F
Middle Mgt. & Above	25.0%	9.8%	35.1%	12.0%	38.1%	23.1%	58.5%	37.5%	42.6%	16.8%
First Line Supervisor	6.3	8.2	5.4	20.0	14.3	15.4	13.8	12.5	10.8	13.7
Staff/ Technical	53.1	78.7	40.6	60.0	31.0	53.8	13.8	45.8	30.7	64.0
Sales	15.6	3.3	18.9	8.0	16.7	7.7	13.8	4.2	15.9	5.6
	100% (32)	100% (61)	100% (37)	100% (50)	100% (42)	100% (26)	100% (65)	100% (24)	100% (176)	100% (161)

the organization proceeds to the next phase:

- What company policies exist concerning women?
- How many women are in the organization?
- What types of jobs are they holding?
- What are their educational backgrounds?
- What training programs are available to female employees?
- How do their salary levels compare to those of men?
- What is the female turnover rate compared to those of men in the organization and the industry?

Third, management must set specific objectives it wishes to achieve with regard to its female employees. At the very least, one objective must contain a statement to the effect that women will be given equal opportunities in all employment notices. As an example of a more specific objective, the firm could indicate that X number of women should be in supervisory or management-level line positions (as opposed to staff positions) by a designated time.

Fourth, plans, policies, and procedures must be developed to achieve the objectives. Certainly the organization must establish formal grievance procedures for handling complaints of those who feel unfairly treated. Only 25 percent of the questionnaire respondents reported in the 1981 Dolecheck study that their firms had such statements and procedures.[7] It may be necessary to establish quotas or affirmative-action programs within the organization. As an example of this kind of action, one chief executive of a large firm assures that women in the company move upward in management using an unusual method. He tells some supervisors: "I have just assigned a capable, skillful woman to you. I want her to succeed. If she doesn't, you're the one in trouble, not she."[8] In other words, these men are made mentors of these women.

Finally, controls must be established to measure the success of these plans and procedures toward achieving the objectives for the advancement of women. Periodic audits or reports should reveal the progress of the company plans.

Self-Help Programs

Training programs, either internal or external to the organization, must be provided for women to learn the *tricks of the trade* in management. While many women are earning bachelor's and master's degrees in business and possess the technical skills learned in school, they have to develop an awareness of how business operates as a game. While a few universities are providing such a course, the number is still small; also, while this type course could be very helpful, certain techniques can be taught only by business executives (both women and men) with many years of on-the-job experience.

Women have to be taught how to take risks rather than serve only in supportive roles, to be competitive, to fully integrate their jobs into their lives, and how to become part of the company *informal* network through activities such as golf games, the noon luncheons, the after-hour drinks in the bar, and attending conferences. Women must also be assertive and let supervisors know that they want to move up and are willing to work to do so. They have to announce that their children and other family responsibilities are arranged to allow time for travel, weekend work, or whatever is necessary.

Also, women who have positions of power need to support other women. Quite often, the woman who has worked long, hard years to rise to the top believes that all other women should have to work as hard as she did; and therefore she will not give guidance and assistance.

Perhaps one female respondent had part of the solution when she said :

> **"Once the World War II men die off, we will fare better than the younger men with whom we have gone to school. They know we can do the job as well (or better) than they can. Too, their wives work, so they don't think we should be home keeping houses and having babies."**

The authors are naive enough to agree totally with this statement. Young men (as well as women) learn attitudes and mimic their fathers and other men; therefore, many specific overt actions on the part of organizations and women must be taken if female employment discrimination is eradicated. The change will not automatically occur as younger men become executives. Perhaps organizations will soon realize that this untapped source of highly-educated and career-minded business women can help improve company productivity and, thus, profitability.

ENDNOTES

[1] Janice Neipert Hedges and Earl F. Mellor. "*Weekly and Hourly Earnings of U.S. Workers, 1967–78.* **Monthly Labor Review,** August, 1979, p. 31.

[2] *United States Commission on Civil Rights, Unemployment and Underemployment Among Blacks, Hispanics, and Women.* **Clearinghouse Publication 74** (November 1982), p. 2.

[3] Hedges and Mellor, p. 35.

[4] Patty Glover Campbell, "*A Comparison of Men and Women in Middle Management Positions in a Southeastern State.*" **The Delta Pi Epsilon Journal** (January 1980), pp. 1-9.

[5] J. H. Foegen, "*Double-Dipping the Labor Market: Sex-Bias Cause?*" **Labor Law Journal** (March 1979), pp. 180-182.

[6] M. Dolecheck and C. Dolecheck, "*Employment Sex Discrimination During the Past Three Years of Women with Business Degrees.*" **Northeast AIDS Proceedings,** American Institute for Decision Sciences 11th Annual Regional Conference (April 1982), pp. 72-74.

[7] Dolecheck, p. 74.

[8] Kathleen Fury, "*Getting Ahead! What You Must Give—What You Get Back.*" **Women in the Work Force: A Special Report.**

MAYNARD M. DOLECHECK, a professor in the Management/Marketing Department at Northeast Louisiana University for nineteen years, and CAROLYN C. DOLECHECK, who has taught at NLU for sixteen years in the Office Administration Department, have been researching sexual harassment and discrimination subjects for the past three years. □

Anthony J. Greco

Decline and Fall of The Fair Trade Law

DR
TICHENOR'S

Resale price maintenance (RPM) is the practice whereby manufacturers of brand-name or trademark goods stipulate and seek to enforce minimum, maximum, or actual wholesale and retail prices of those goods as they progress through the distribution chain to consumers. It has been most successfully applied in the sale of brand-name goods that are highly advertised, nonperishable, and widely distributed, such as drugs and alcoholic beverages. This practice flourished in the United States for approximately four decades. Although primarily faded from the scene, RPM exerted considerable economic influence on the Louisiana economy during its heyday, until it gained the attention of a New Orleans grocer.

Resale price maintenance in Louisiana began in 1936 with the establishment of its legal foundation through the Louisiana Fair Trade Act. The system continued unchecked in the state until 1956, when John Schwegmann Jr., a New Orleans grocery retailer who had struggled against resale price maintenance for years, succeeded in rendering it virtually impotent in Louisiana.

The practice has purported advantages for both manufacturers and distributors (mainly retailers). Regarding manufacturers, it is contended that RPM prevents loss-leader selling, the practice wherein a retailer offers a product at a price below his cost so as to attract customers into his store in the hope that additional purchases will be made. Manufacturers are often concerned about this practice because they fear it is detrimental to the reputation or good-will of their brand name. This is notwithstanding the fact that the evidence of manufacturers actually being damaged is very rare.

Some manufacturers have also asserted retail outlets may refuse to stock their products unless guaranteed a good profit margin through some price stipulation of the manufacturers. It is generally true, however, that retailers will stock a good if the demand for it is strong enough, even if no such guarantees are provided.

Manufacturers occasionally have favored RPM as a vehicle to ease pressure on them from retailers for lower purchase prices. Retailers who are subject to active price competition that reduces their profit margins tend to seek some relief through lower prices from the manufacturers. While this may give some temporary aid to their profit margins, retailers are still likely to experience other forms (nonprice) of competition tending to lower their profit margins. They then return to the manufacturers for additional relief. Hence, the manufacturers may find RPM an inadequate means of dealing effectively with pressure from retailers.

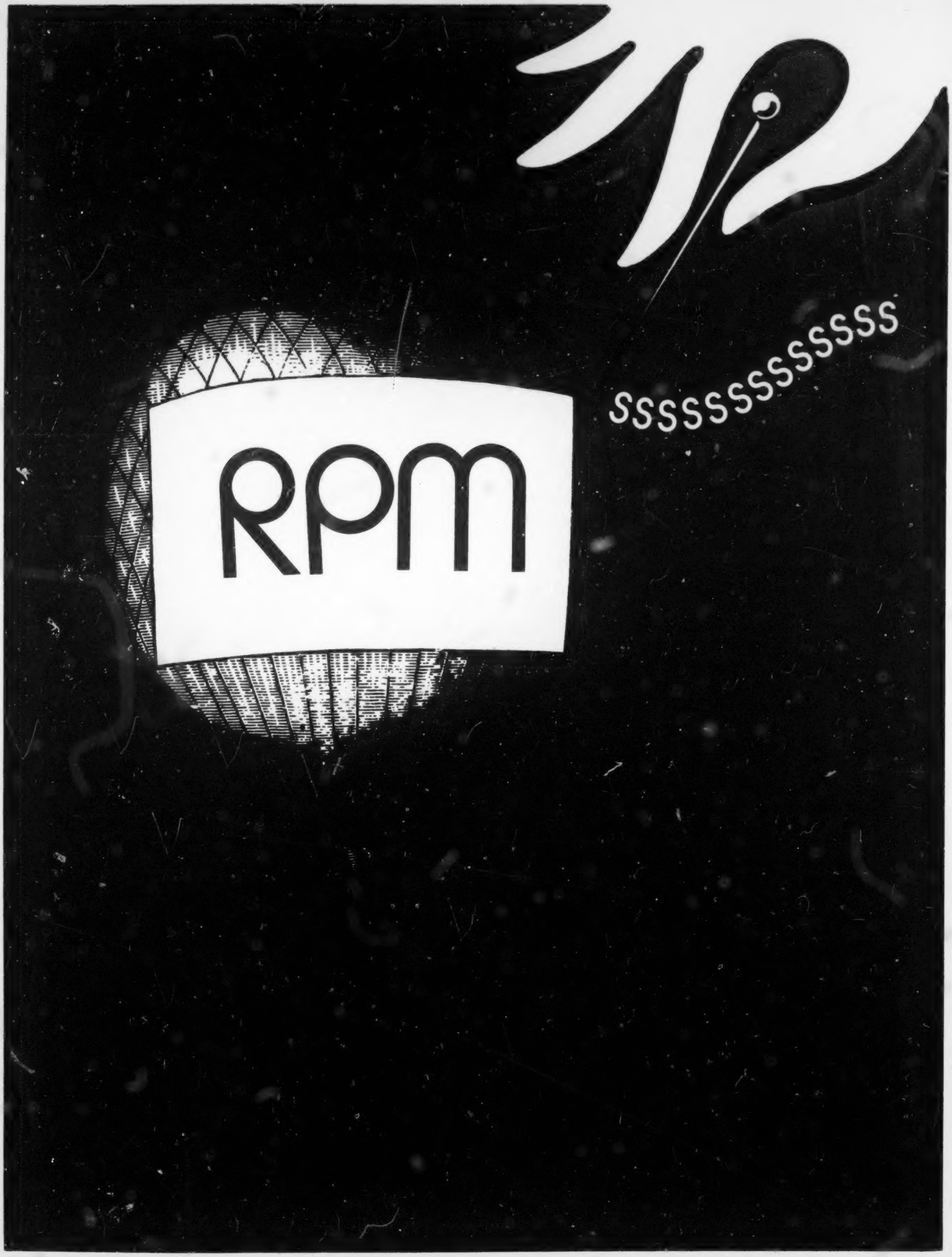
Finally, some manufacturers fear that some specialized services will not be provided at all unless retailers have guaranteed prices and margins. Illustrative of this argument is the claim that book dealers will refuse to handle old or rare books unless a good margin is provided on the best sellers. However, this whole argument is rather weak because if consumers want a product or a service badly enough, they will be willing to pay for it. There is really no reason to impose some of the costs of such goods or services on nonusers.

Implicit in much of the foregoing discussion is the principal advantage accruing to retailers. That purported advantage is the suppression of rigorous competition on price within the sale of a specific brand-name good. This, in the short run, provides retailers with higher prices and profit margins. Nevertheless, it eventually works against retailers because high prices and profit margins attract additional rival retailers and brands, both of which tend to drive costs up and prices down.

Contractual RPM Goes to Court

Contractual RPM is the practice whereby a manufacturer requires his distributors by contact to maintain his stipulated prices. American courts have been rather consistent in outlawing such arrangements.

Perhaps the leading case involving contractual RPM is the Dr. Miles case.[1] The Dr. Miles Company had entered into contracts with more than 400 wholesalers and 25,000 retailers to maintain stipulated prices at both the wholesale and retail levels. The John D. Park and Sons Company, which had not signed a contract with Dr. Miles, was selling some of the latter's medicines below the stipulated prices. The Miles Company sought to enjoin


RPM
SSSSSSSSSSSSS

such sales through court action. The U.S. Supreme Court eventually held that the resale price agreements were illegal restraints of trade which violated the Sherman Antitrust Act in that they substantially lessened or eliminated competition among wholesalers and retailers of Dr. Miles' products.[2]

Such rulings placed resale price maintenance in a rather precarious position. This was greatly modified by the Supreme Court's decision in the Colgate Case.[3] Unlike Dr. Miles, Colgate had not made use of any written agreements to get its prices accepted. Rather, it used various forms of persuasion, such as supplying retailers with lists of suggested prices which they were asked to follow. If the dealers did not adhere to these prices, Colgate refused to deal with them again. Furthermore, Colgate encouraged dealers to supply information on price cutters.

The federal government filed a suit against Colgate charging a violation of the Sherman Act. Failing to find any evidence of written contracts or combinations, however, the Supreme Court upheld Colgate's practices. The Court contended a private business could engage in dealer selection and refusals to deal. Despite this decision, the ruling of the Dr. Miles case applied whenever there existed a written agreement or one which could be inferred from the specific circumstances involved in any particular cases.

In addition to allowing RPM through dealer selections and refusals to sell to price cutters, the courts, prior to the 1930s, allowed only one other method of maintaining prices. This was the use of consignment selling arrangements, wherein manufacturers could fix the prices of their goods sold by agents. Under such situations, the manufacturer retains title to the products in question until the distributors sell them to the ultimate consumers. The legality of this practice was established in the General Electric decision.[4]

Fair Trade Laws

Events of the 1930s greatly enhanced the practice of RPM. Beset by generally depressed times and rapid expansion of chain stores, the small independent retailers demanded legalization of a price maintenance system. Proponents labeled such laws "*fair trade laws*," a name which has persisted to the present.

The first state to respond was California, which passed legislation in 1931 authorizing RPM contracts on trade-marked or brand-named goods in free and open competition with goods of the same general class. Exceptions were provided for close-out sales, sales of damaged and deteriorated goods, and court-ordered sales of goods.

The California law was amended in 1933 to include the nonsigner clause, a provision whereby a manufacturer of a trade-marked or brand-named good had only to sign a resale price maintenance contract with one retailer in a state in order to bind all retailers within that state to his stipulated prices. Fair trade proponents had recognized the necessity of such a provision because it would be well-nigh impossible for a manufacturer to affect a contract with every retailer of his products.

Similar laws were adopted by several other states. A test of the constitutionality of such laws was quickly provided in the Old Dearborn case.[5] Here, the U.S. Supreme Court upheld the Illinois fair trade law as constitutional on the ground that it protected the goodwill of the Seagram Corporation's brand name whiskey.

Even though, by implication, the Supreme Court had upheld all state fair trade laws, these laws were only applicable within the individual states having such laws. That is, they covered only intrastate commercial transactions. They did not confer any immunity under federal law, namely the Sherman Antitrust and the Federal Trade Commission Acts, where interstate commerce was involved.

Therefore, fair trade proponents organized into lobbying groups, such as the National Association of Retail Druggists, and largely through their efforts, Congress passed the Miller-Tydings Fair Trade Act in 1937. This act exempted resale price maintenance contracts from section one of the Sherman Act which forbids, among other things, every contract in restraint of interstate trade or commerce. The act also exempted such contracts from section five of the Federal Trade Commission Act, which prohibits all unfair methods of competition. In effect, this law legalized resale price agreements for goods shipped into states where such contracts were legal.

The passage of the Miller-Tydings Act, as expected, encouraged additional states to pass resale price maintenance legislation. From the time of the adoption of the California law in 1931 to the passage of the Miller-Tydings Act in 1937, forty-two states had authorized retail price maintenance agreements. Eventually, this grew to forty-six of the fifty states.

As is the case with most controversial laws, the Miller-Tydings Act went through a series of court tests. Companies employing purported RPM schemes fared poorly in a trio of cases in the 1940s.[6] Even so, none of these actually touched on the constitutionality of the law.

Under Attack

During the early 1950s, however, three important cases rendered the Miller-Tydings Act nearly impotent and, for a time, actually halted RPM. These cases arose out of the controversy over whether or not the Miller-Tydings Act sanctioned the nonsigner provisions of the various state fair trade laws. The controversy evolved because the act made no direct mention of the nonsigner clause. The first two cases involved the Sunbeam Corporation and a nonsigner-mail-order dealer in Pennsylvania, who had sold Sunbeam products at less than the specified prices.[7]

In the first case, a court of appeals ruled Sunbeam could not set prices for goods which were entering into interstate commerce from Pennsylvania at prices lower than those prevailing in Pennsylvania. The second case resulted in a court decree that the nonsigner clause of a state's fair trade law could not bind nonsigning dealers engaged in goods moving in interstate commerce. Through these decisions, mail order houses in non-fair-trade states were allowed to ship goods into fair trade states at prices less than those mandated by those states. Eli Lilly brought suit under the Louisiana fair trade law and obtained an injunction against Schwegmann Brothers. Schwegmann appealed on the grounds that the nonsigner clauses of both the Louisiana law and the McGuire Act were unconstitutional. He lost his case in the court of appeals and was twice denied a hearing by the U.S. Supreme Court.

The Supreme Court subsequently refused to review cases involving the New York and New Jersey laws which had been upheld in lower court decisions. Then in the McKesson and Robbins case of 1956, the Court ruled, in keeping with the Colgate doctrine, that a manufacturer had the privilege of selecting his customers and could engage in resale price maintenance contracts as long as they were in strict conformity with the standards of the McGuire Act. Therefore, fair trade seemed to be securely entrenched by the mid-1950s.

Two decisions in 1957 involving the Masters Mail Order Company quickly reversed this situation. Masters was housed in New York, a state having a fair trade law with the nonsigner provision. To circumvent this law, Masters set up a subsidiary in Washington, D.C., an area having no fair trade law. Thereafter, he advertised goods in the New York store at less than the fair trade prices. Customers could order from the New York store, but the merchandise would be shipped from the Washington store, which carried, lower prices.

General Electric, some of whose items were handled by Masters, objected to this scheme and obtained a court injunction against Masters' practice. Masters won a reversal upon appeal, and the Supreme Court refused General Electric's request for a hearing.[10]

In the second case, it was ruled that advertisements made in fair trade states or reduced prices available in non-fair-trade states or areas were not subject to the jurisdiction of state fair laws.[11] Therefore, by the end of 1957, discount and mail order houses having stores in non-fair trade states could advertise and sell goods below the prices established for those goods in fair trade states.

Several manufacturers of electrical appliances and expensive consumer goods abandoned fair trade in the late 1950s. Such manufacturers included General Electric; Sunbeam, McGraw, Inc.; the Royal McBee Corporation, Schick, Inc.; Westinghouse; and Eastman Kodak.[12] In addition to the aforementioned adverse court decisions, there were several reasons for this flight from fair trade. First, enforcement of fair trade pricing was very expensive in that it entailed continuously large appropriations for lawyers, accountants, and other persons and instruments of enforcement. Further, any necessary court action was usually very slow. In addition, a confused legal situation over enforcement of fair trade laws resulted from the existence of the two federal laws on fair trade, the many divergent state laws, and a myriad of inconsistent court decisions rendered in individual cases.[13]

Perhaps the most important reason for the decline of fair trade was the new type of retailing, "*minimum service merchandising*," which began after World War II. Briefly, this involved retailing innovations, such as large volume, high rate of turnover, minimum profits per unit of stock, and a minimum of extra services, such as home delivery and credit availability, normally given to customers by small retailers. The emphasis was on getting the goods to the customers as quickly and as cheaply as possible.

Despite fair trade's declining position in the late 1950s, its proponents did not concede defeat. Instead, they lobbied for a new federal fair trade law which would allow manufacturers engaged in interstate commerce to set prices for their goods, regardless of whether or not a state within which they sold had a fair trade law. Several bills were introduced in Congress, most notably the Oren-Harris Fair Trade Bill of 1959 and the Quality Stabilization Bill of 1962, all of which failed.[14]

Fair trade also suffered some significant setbacks in the courts during the early 1960s. The two most notable cases were the Parke Davis case and the Simpson (Union Oil) cases.[15] Both cases involved refusals to sell, which the Supreme Court ruled went beyond the doctrine relative to that practice established in the Colgate case.

Simply looking at the number of states which began, in one way or another, to abandon fair trade is another way of observing its decline. Mention was made earlier of the large number of states adopting fair trade from 1931-1937. However, by 1953 a decline was under way. State laws were weakened or invalidated by state courts and legislatures. From the early 1950s to 1970, the number of states having fully operative fair trade laws fell to twenty-one; by 1973, to sixteen; and by 1975, to only eleven. In fact, four state legislatures repealed their respective laws in 1975 alone.

Finally, in the summer of 1975, a bill to repeal both the Miller-Tydings Act and the McGuire Act, the federal statutes making the state fair trade laws effective, was introduced in the U.S. Senate, where it was passed unanimously. Subsequently, identical legislation was passed by the U.S. House of Representatives by a 380-11 count. Hence, the remaining state fair trade laws were reduced to where they had been prior to 1937, that is, to laws applicable strictly to intrastate commerce.

The Louisiana Fair Trade Law

The Louisiana Fair Trade Act was passed in June 1936.[16] As worded in the introductory title, this was:

> "An Act to protect trade-mark owners, distributors, and the public against injuries, and uneconomic practices in the distribution of articles of standard quality under a distinguished trade-mark, brand, or name."

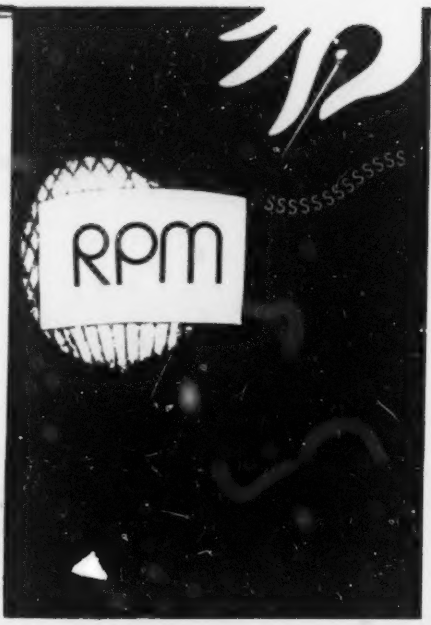
The laws of sixteen other states had the introductory title.

Section I of the act legalized RPM contracts which apply to commodities that, besides being identified by trade-mark, brand, or name, are in fair and open competition with commodities of the same general class produced by others. Provisions of such contracts specifically identified as legal were, (1) those prohibiting the buyer of such goods from reselling except at the price stipulated by the vendor, and (2) those allowing the producer or vendee to require that the buyer agree not to resell except at the price stipulated by the producer or vendee.

In these provisions, the Louisiana Fair Trade Act emulated the California fair trade law. Although all states did basically the same, some did employ somewhat different stipulations. For example, some state statutes referred to contracts involving goods identified by trade-mark, brand, or name, that were in "*free and open competition*" (as opposed to "*fair and open competition*") with goods of the same general class produced by others. Also, some state statutes prohibited resales at "*less than the minimum price stipulated*," rather than the "*less than the price stipulated*" standard of the California law. This, then, involves a difference between the exact price stipulated, or a minimum price stipulated.[17]

Within its first section, the Louisiana statute also emulated the California law in allowing for exceptions to the resale price maintenance contracts to permit close-out sales, sales of damaged or deteriorated goods, and court-ordered sales. Likewise, in its third section, the law echoed the California statute in disallowing any contracts or agreements between producers or between wholesaler or between retailers relative to sale or resale prices. Such agreements between such rivals on the same horizontal plane constitute price fixing arrangements which are illegal under federal antitrust law.

The heart of the Louisiana Fair Trade Act, as with other such acts, was the nonsigner clause, which was contained in Section 2 of the act. This section declared that it was unfair competition to willfully and knowingly advertise, offer for sale, or sell any good for a price below that stipulated in a RPM agreement, whether the person doing the advertising, offering for sale, or actual sale was a party to such contracts or not.



John Schwegmann Jr. was the owner of a large chain of retail supermarkets in the Greater New Orleans area, an enterprise which originated in 1946. Through his operation, Schwegmann introduced to New Orleans a new type of retail distribution which has subsequently been labeled "*minimum service merchandising*." The chief characteristics of this system of merchandising are, (1) self-service; (2) cash-and-carry by the customers; (3) no credit department; (4) no delivery service; (5) no counter service, except for meat; (6) the location of the store in a low-rent district; (7) volume purchases by the store owners; (8) rapid turnover of merchandise; (9) full utilization of discounts; (10) careful inventory control; and (11) management by the owners themselves.[19]

Clearly, the emphasis was on reducing the cost of operation. All unnecessary services were eliminated. Shwegmann primarily relied on large discounts. He implemented such a policy from the start by applying a low, uniform mark-up directly related to the cost of merchandise. He soon expanded the partnership and the number of stores to some eleven supermarkets.

Schwegmann in Court

Schwegmann's main success against fair trade came through the courts. Mention has already been made of Schwegmann's victory in the Calvert liquor case. This case had originated when the Calvert and Seagram corporations brought proceedings against Schwegmann Brothers to enjoin them from selling the distillers' trade marked whiskeys for less than the fixed prices they had established through fair trade contracts. The suits were based on the Louisiana Fair Trade Law, specifically Section 2, since John Schwegmann had not signed a RPM contract with either of the concerns involved.

The U.S. District Court hearing the case noted that the transactions involved were exempt from the Sherman Act by virtue of the Miller-Tydings Act and, therefore, granted injunctions in favor of the petitioning corporations. Schwegmann appealed on the ground that the act exempted only contractual price fixing from the Sherman Act, and not compulsory price fixing. Nevertheless, the U.S. Court of Appeals affirmed the decision and refused a hearing.

Schwegmann then appealed to the U.S. Supreme Court, which agreed to hear it. Subsequently the court ruled in his favor by holding that the enforcement of a price agreement against a nonsigner violated the Sherman Act. It held the Miller-Tydings Act exempted thereform only voluntary or contractual price arrangements.

As indicated earlier, the fair trade proponents quickly nullified this decision by pushing the McGuire-Keough Act through Congress. This law made Schwegmann immediately vulnerable to drug and other manufacturers whose products he was selling at less than their stipulated prices, for as we have seen, it made RPM contracts binding on all retailers, signers and nonsigners alike, in states having fair trade laws.

Despite the passage of the McGuire Act, Schwegmann continued to sell several products at below stipulated prices. Finally, Eli Lilly and Company obtained a court order forcing Schwegmann to raise his prices on Lilly products on the ground that Schwegmann was in violation of the nonsigner clause of the Louisiana Fair Trade Law. Other manufacturers followed suit.

In the Lilly case, the United States District Court ruled against Schwegmann, who contended that the Louisiana Fair Trade Law and the

McGuire Act were unconstitutional because they constituted unlawful delegation of legislative authority to private persons, as well as a denial of due process of his right to dispose of his products as he saw fit. The unlawful delegation of legislative authority referred to the fixing to resale prices by private persons, i.e. the manufacturers.

Schwegmann appealed unsuccessfully to the U.S. Court of Appeals. Next, he appealed to the United States Supreme Court but was denied a hearing. He tried a second time but again failed to get a hearing. By then, he was under approximately 100 court orders to raise prices on products of various manufacturers.

Dr. Tichenor Case

Being frustrated in the federal courts, Schwegmann shifted his efforts to the Louisiana courts. His objective was to test the constitutionality of Louisiana's fair trade law. In planning this, however, he fully realized that the Louisiana Supreme Court had upheld the constitutionality of this law by a 7-0 vote in the *Pepsodent v. Krauss* case.[20]

To get a case in the state courts, Schwegmann had to be sued by a Louisiana-based firm. Realizing this, he goaded the Dr. G. H. Tichenor Antiseptic Company into filing suit against him by advertising Tichenor's antiseptic at less than their fair trade prices. Dr. Tichenor's antiseptic had been fair-traded for about fifteen years. Almost immediately Schwegmann was threatened with legal action by a New Orleans law firm if he did not refrain from advertising and selling the antiseptic at such low prices. He immediately informed the law firm that he refused to overcharge his customers unless forced to do so by court injunction. Such as injunction was soon forthcoming. Following is a list of Tichenor's fair trade prices as compared to the prices at which Schwegmann was selling them.[21]

Bottle Size	Fair Trade Price	Minimum Price	Schwegmann Price
Small	$.30	$.25	$.22
Medium	.60	.49	.43
8 oz.	.89	.89	.62

Schwegmann lost the case in both lower and intermediate courts because the judges felt that they had to follow the 1942 decision of the Louisiana Supreme Court. Schwegmann appealed to the Louisiana Supreme Court.[22]

Although the case was initially instituted in District Court in December, 1953, it was not finally resolved by the Louisiana Supreme Court until June 29, 1956 when the Court decided in favor of Schwegmann. The Court unanimously reversed its 1942 decision on the Louisiana fair trade law holding that (1) indeed, the power to regulate private business by the use of price fixing was a legislative function to be used only in special circumstances, such as when the measure is seen to have a reasonable relation to the public welfare and is neither arbitrary nor discriminatory; and (2) that the nonsigner clause of the Louisiana fair trade law was an unconstitutional delegation of the legislative powers of price fixing to private persons in violation of Article III, Section I, of the Louisiana Constitution. These points had been raised by Schwegmann. The Tichenor Company petitioned for a rehearing of the case but was denied this on September 28, 1956.[23]

John Schwegmann Jr. had, therefore, accomplished his purpose. He had taken fair trade into the Louisiana courts and had succeeded in defeating it. Being well pleased with the Tichenor decision, he proclaimed June 29, 1956, as Louisiana's "**D-day**," or day of liberation for consumers from fair trade price fixing.[24] He was then able to cut many more prices on various products, no doubt, to the delight of consumers.

ENDNOTES

[1] *Dr. Miles Medical Company v. John D. Park and Sons Company*, **220 U.S. 373** (1911).

[2] Vernon A. Mund and Ronald H. Wolf, **Industrial Organization and Public Policy** (Englewood Cliffs: Prentice Hall, Inc., 1971), p. 191.

[3] *United States v. Colgate and Company*, **250 U.S. 300** (1919).

[4] *United States vs. General Electric Company*, **272 U.S. 476** (1926).

[5] *Old Dearborn Distributing Company v. Seagram Distillers Corporation*, **299 U.S. 183** (1936).

[6] *United States v. Univis Lens Company*, **316 U.S. 241** (1942); *United States v. Bausch and Lomb Optical Company*, **321 U.S. 707** (1944); *Eastman Kodak Company v. Federal Trade Commission*, **330 U.S. 828** (1947).

[7] *Sunbeam Corporation v. Wentling*, **185 Fed. 2d 903** (1950) and **192 Fed. 2d 7** (1951).

[8] *Schwegmann Brothers v. Calvert Distillers Corporation*, **341 U.S. 384** (1951).

[9] *Schwegmann Brothers v. Eli Lilly and Company*, **205 Fed. 2d 788-98** (1953).

[10] *General Electric Company v. Masters Mail Order Company*, **244 Fed. 2d 681** (1957); Marshall C. Howard, **Legal Aspects of Marketing** (New York: McGraw-Hill Book Co., 1964), p. 41; Reuben E. Slesinger and Asher Issacs, **Business, Government, and Public Policy** 2d ed. (Princeton, N. J.: D. Van Nostrand Co., Inc., 1968), p. 183; Elmer E. Smead, **Governmental Promotion and Regulation of Business** (New York: Appleton-Century-Crofts, 1969), p. 115; and Clair Wilcox, **Public Policies Toward Business** 3rd ed. (Homewood, Illinois: Richard D. Irwin, Inc. 1966), p. 713.

[11] *Bissell Carpet Sweeper Co. v. Masters Mail Order Co. of Washington, D.C.*, Inc., **240 Fed. 2d 684** (1957).

[12] "*Fair Trade Slips*," **New Orleans States Item** January 5, 1957, p. 6; "*General Electric Abondoning Fair Trade on March 1, Is Report*," **The Times** (New York), February 25, 1958, p. 1; "*Royal McBee, Schick, Dropping 'Fair Trade'; Other Firms Stand Pat*," **Wall Street Journal**, March 2, 1958, p. 5.

[13] David Morgenbesser, "*It's a Buyers' Market*," **Journal of Commerce** (August 14, 1956): 20.

[14] Slesinger and Issacs, p. 184; Smead, p. 116.

[15] *United States v. Parke, Davis and Co.*, **362 U.S. 29** (1960); and *Simpson v. Union Oil Co.*, **377 U.S. 13** (1964).

[16] *Louisiana Fair Trade Act*, **Act 13 of 1936**, approved June 26, 1936, effective July 28, 1936.

[17] Federal Trade Commission, **Report on Resale Price Maintenance** (Washington, D.C., Government Printing Office, 1945).

[18] This material has been taken from Chapter 2 of Warren B. Nation's **Schwegmann Brothers: A Study of Supermarket Growth and Its Economic Significance** Ph.D. Dissertation, (University of Alabama), 1957.

[19] Statement of Wilfred L. Meyer for Schwegmann Brothers on Senate Bill 3850 before the United States Senate Committee on Interstate and Foreign Commerce, July 21, 1958.

[20] *Pepsodent Co. v. Krauss Co.*, **200 La. 959** (1942).

[21] Schwegmann editorial, **Times-Picayune**, December 7, 1953, p. 23.

[22] *Dr. G. H. Tichenor Antiseptic Company v. Schwegmann Brothers Giant Super Markets*, Supreme Court of Louisiana No. 42883, Original Brief on Behalf of Schwegmann Brothers, et al., defendants-appellants, p. 46.

[23] *Tichenor v. Schwegmann*, **La. Reports**, Vol. 231 pp. 74-75 (1957).

[24] "*Louisiana's 'D' Day*," **Times-Picayune**, July 9, 1956, p. 29; "*We Have Been Freed*," **Times-Picayune**, July 23, 1956, p. 17; and Schwegmann editorial, **Times-Picayune**, July 30, 1956, p. 19.

ANTHONY J. GRECO is director of graduate studies for the University of South Alabama's College of Business and Management Studies at Mobile.

LOUISIANA BULLETIN

State Unemployment Remains Up

Louisiana's total unemployment rate remained at more than 12 percent in March, despite an increase of 228,800 in employment. Workers in nonagricultural fields, at 1,588,600, remained unchanged from the February level, as manufacturing employment continued to fall, according to the *State Department of Labor*.

Unemployment rates for the seven labor market areas showed slight declines in Alexandria, Lake Charles, Monroe, and Shreveport; and similar increases in Lafayette and New Orleans, with Baton Rouge continuing unchanged. Unemployment in the rural parishes remained extremely high, with some 14 parishes experiencing rates higher than 18 percent. Oak Grove in West Carroll Parish had the highest level of unemployment in the state: 29.7 percent.

Year to Be Slow Growth Period

Having virtually bypassed the 1973-75 national recession and the 1980 economic squall, Louisiana is expected to view 1983 as no more than a slow period of growth, according to **William J. Kahley** of the Federal Reserve Bank of Atlanta's *Economic Review*. Louisiana's oil and gas industries, formerly rapid generators of state economic growth, have been engulfed by a spreading worldwide oil and gas surplus, Kahley points out, adding, "forecasts of developments in the oil and gas industries for 1983 vary widely, but the consensus seems to point to modest recovery around midyear."

The recent energy drop is reflected in Louisiana's labor force and employment statistics, according to the report, which is based on November 1982 statistics. The state's seasonally adjusted November employment rate of 11.3 percent exceeded the nation's rate of 10.7 percent, but at the same time the state's civilian labor force increased slightly from November 1981 to November 1982, with 41,000 fewer persons employed than a year earlier. Of the seven standard metropolitan statistical areas in Louisiana, Lake Charles, at 14.2 percent, had the highest unemployment rate, while Lafayette's 6.4-percent unemployment rate was the lowest.

Despite the adjusted employment rate's high of 11.3 percent, Louisiana's total personal income rose to $43.7 billion from 1981 to the quarter ending last June, Kahley added. This 8.2-percent increase is in contrast to the 16-percent increase experienced the previous year, but was still 1 percent more than the national average. According to the report, the 8.2-percent growth outdistanced every Southeastern state except Florida. Much of the credit for this increase is given to the oil-fired economic boom of 1979-81. As the petro-chemical fire cooled down in late 1981 and nearly went cold in the last half of 1982, however, several economic indicators took a plunge.

The area of retail sales, although it showed some improvement by year-end, has trailed the nation's rebound by 4.1 percent. A 1.8-percent decline in retail sales for the first eleven months of 1982 was some indication that the energy-fed economy was losing much of its impact. By contrast, retail sales increased by 2.6 percent for the nation over the same period. In November, national retail sales averaged a 7.6-percent increase compared to 1982, while Louisiana's retail sales rose only 3.5 percent in the same period.

State tourism also is not expected to see much improvement until 1984 when New Orleans plays host to the World Exposition. The industry suffered a bad year in 1982, as even the less-expensive intrastate tourism declined. Visitor days at U.S. forest and recreation sites in the state, for example, fell 14 percent, while attendance in the state parks was down 11.1 percent from 1981. Depending on the economic recovery, 1983 may see an improvement in the industry, but, the year could also see a slowing trend, as conventioneers and tourists postpone visits until the 1984 World's Fair.

Capital Development Project Set

After a long period of decline and a slow period of tentative redevelopment, project Downtown Baton Rouge is on the drawing boards again. Beginning in the 1960's, various attempts have been made to plan a new and more vibrant downtown.

According to *Discover*, the publication of the Arts and Humanities Council of Baton Rouge, the banking community has been one of the leaders in the area's redevelopment and has plans for future construction. Redevelopment plans include a major renovation of old warehouses in the Catfish Town area south of the Riverside Centroplex governmental center and development of the Mississippi River levee that includes a plaza and a naval museum. Other city interests are redeveloping shops and offices throughout the downtown area.

Most importantly, however, the city is funding a comprehensive study for the redevelopment effort called the *Baton Rouge Business District Economic Development Study*, the report stated. The redevelopment study will be supported by both technical and citizens' advisory committees, and a project task force acting as a board of directors for Charles Caplinger Planners, Inc., which will oversee the project. □

New River Service

Schenkers International has announced the completion date of their new office and 40,000-square-foot terminal at Kenner. The terminal will be operational in June, and will be one of the most modern facilities in the area. It will provide complete export and import services, specializing primarily in export packing. A spur track for rail services is expected to be installed later this year.

Cable Venture

Domestidyne, a joint venture between Microdyne and Domesticom corporations, has agreed in principle to acquire all of the hotel SMATV systems operated by American Medical Building Corporations, American Network Division, as well as all existing American Network contracts to install such systems. This will add more than 20,000 hotels to Domestidyne's hotel division, and puts the New Orleans-based corporation in more than fifty major U.S. cities. The service will feature Showtime, ESPN, USA, CNN, and Nickelodeon, in addition to capabilities for teleconferencing, and data and text transmission, including electronic mail and newspapers.

Cities Service Goes to Southland

The *Southland Corporation*, operator and franchisor of *7-Eleven* stores, and *Occidental Petroleum Corporation* have agreed in principle for Southland to acquire from Occidental the refining, marketing and transportation businesses of Cities Service Company. Southland is the world's largest operator and franchisor of convenience stores, with 7,257 7-Eleven stores in the United States and Canada.

□

NATIONAL NEWS

(continued from page 16)

in the same state, and 9.7 percent to a different state. These figures do not include people who had returned to their original residences by 1980 or had moved more than once during the period. States with relatively high percentages of 1980 residents who were living in another state in 1975 were Nevada (31.5), Alaska (29.1), Wyoming (28.3), and Arizona (23.9). The lowest percentage was in New York (3.8).

FASB Proposal Poses Threat

The Financial Accounting Standards Board's proposal, *Preliminary Views: Employers' Accounting for Pensions and Other Post Retirement Benefits*, could not only significantly affect a company's financial statements but could also have broad social implications for the country as a whole. According to **Peter R. Scanlon,** chairman of the New York accounting and consulting firm of Coopers & Lybrand, companies would have to record unfunded pension benefits as a liability on their balance sheets—as well as an intangible asset, which will make it more difficult to measure the actual financial health of a company.

The proposal also calls for companies to use only one actuarial method, although several are currently acceptable for both accounting and ERISA purposes, and it would require a company to accrue any material costs for a retiree's health care and life insurance benefits during the employee's years of service with the company. "I am concerned," Scanlon said, "that the proposal represents a general trend by the Board toward an unwarranted emphasis on the balance sheet and a movement away from the income statement, which could result in severe fluctuations in annual financial statements."

□

COLLEGE HIGHLIGHTS

(continued from page 17)

sion within the last few years."

LSU graduates also benefit from the relationship between the College of Business Administration and the banking industry. Bankers from across the nation attend various continuing education programs and seminars hosted on the LSU campus throughout the year. This exposure of faculty and student body to the banking community has helped to build the image of the LSU banking program with the banking industry, according to Staats.

The professor also reported that salaries offered to LSU graduates have increased sharply in recent years. Master degree graduates command starting salaries of up to $32,000, and undergraduate degree students are receiving salaries of up to $22,500.

Latin American Energy Exchange

Louisiana State University has entered into a $40,000 contract with the Louisiana Department of Natural Resources to establish a Latin American Energy Exchange Program, with **Dr. Rodolfo J. Aguilar,** director of the Center for Latin American Affairs, as principal investigator, and **Dr. Emma Brossard,** director of Policy Analysis and Planning, Center for Energy Studies, as co-principal investigator. A working dialog in the area of mutual energy problems will be established between the people of Louisiana and leading energy centers in Latin America. This will be accomplished through the exchange of scholars in diverse energy-related areas, Inter-American conferences to analyze the effects of foreign petrochemical decisions, and by assisting in the establishment of new energy centers in Latin American countries, thus permitting direct interaction with hemispheric leaders.

□

RESEARCH NOTES

Study Predicts Impact of Fair On Louisiana Economic Scene

Nearly $530 million will be spent in staging the 1984 World's Fair and in fair-induced expenditures by visitors, according to estimates in a study conducted by **Dr. A. M. M. Jamal,** research economist for the College Division of Research. Jamal's study, partially based on statistical information developed by Harrison and Price Company for a report to the Louisiana World Expo, Inc., also predicts the fair should produce about $350 million in new earnings for Louisiana workers; and it will generate an additional $82.7 million in Louisiana taxes.

According to Harrison and Price estimates, Expo Corporation, exhibitors, and concessionaires will invest some $122 million in capital expenditures and about $181 million for total operating expenditures. They further predicted $227 million in off-site visitor expenditures. The addition of the projected amount of fair-related tourism spending to these amounts brings the total that can be expected to effect the Louisiana economy to more than $521 million.

Jamal shows in his breakdown that new earnings by proprietors and workers is being predicted to reach some $350 million and produce more than 27,600 man-years of employment. Economic sectors, in terms of estimated total earnings and man-years of employment, covered by the study, include agriculture, forestry, and fisheries, $4 million, 311; mining, $1.4 million, 49; construction, $49.2 million, 2,322; manufacturing, $22.9 million, 1,148; transportation, communication, and public utilities, $27.1 million, 1,163; wholesale trade, $17.5 million, 785; retail trade, $99 million, 9,809; finance, insurance, and real estate, $11.9 million, 643; and services, $116 million, 11,410.

Additional tax revenues predicted by Jamal to be generated by the fair include from on-site visitor spending, $12.165 million; from off-site visitor spending, $7.070 million; hotel taxes, $5.100 million; amusement taxes, $5.600 million, state income taxes, $6.987 million; and from all other direct and indirect sales taxes, $45.683 million; for a total $82.683.

Dr. A. M. M. Jamal is a research economist for the LSU Division of Research in the College of Business Administration at Baton Rouge. He currently is studying the impact of coal exports through Louisiana and is involved in the development of the Louisiana Occupational Information System being sponsored by the State Department of Labor. □

ECONOMIC IMPACT OF THE WORLD'S FAIR

Estimate of the Expenditures for Staging the Fair and Fair-Induced Expenditures by Visitors

	Thousands of 1984 Dollars
1. Total Capital Expenditures (by Expo Corporation, Exhibitors, and Concessionaires)	$121,900
2. Total Operating Expenditures (by Expo Corporations, Exhibitors, and Concessionaires)	180,000
3. Total Expenditure by Visitors at the Fair (11 million visitors each spending $15.80)	173,800
4. Total Off-Site Visitor Expenditures, in addition to usual tourist expenditures	226,710
TOTAL New Outlay Impacting the Economy (1+2+4)	529,700
TOTAL Capital and General Operating Expenditures (1 + part of 2)	218,150

*Source: Report by Harrison and Price Company for the Louisiana World Expo, Inc., November, 1980

REVENUE PROJECTIONS

Tax Revenue Generated (Thousands of 1984 dollars)

Source of Revenue	Amount
Sales Tax from On-Site* Visitor Spending	$12,165
Off-Site Visitor Spending*	7,070
Hotel Tax*	5,100
Amusement Tax*	5,600
State Income Tax	6,987
All Other Direct and Indirect Sales Tax	45,761
TOTALS	$82,683

*Source: Report by Harrison and Price Company for the Louisiana World Expo, Inc., November, 1980

IN APPRECIATION

The **Louisiana Business Review**, a quarterly publication of the Division of Research in the College of Business Administration at Louisiana State University, is dedicated to providing worthwhile and timely information on local, state and national economic developments of interest to members of the Louisiana business and government communities. This objective is being achieved by presenting high quality, readable articles written by knowledgeable representatives from business, government and academia. The Division would like to express its sincere appreciation to the following companies whose valuable contributions have made this publication possible.

Major Contributors:

AMERICAN BANK AND TRUST COMPANY
BATON ROUGE

BANK OF THE SOUTH
BATON ROUGE

BATON ROUGE BANK AND TRUST COMPANY
BATON ROUGE

CAPITAL BANK AND TRUST COMPANY
BATON ROUGE

CITY NATIONAL BANK
BATON ROUGE

FIDELITY NATIONAL BANK
BATON ROUGE

FIRST STATE BANK AND TRUST COMPANY
BAKER

GULF STATES UTILITIES COMPANY
BATON ROUGE

LOUISIANA NATIONAL BANK
BATON ROUGE

Other Contributors:

BANK OF ZACHARY
ZACHARY

COMMERCIAL-SECURITIES COMPANY, INCORPORATED
BATON ROUGE

FIRST NATIONAL BANK OF PORT ALLEN
PORT ALLEN

HOWARD, WEIL, LABOUISSE, FRIEDRICHS, INCORPORATED
BATON ROUGE

LIVINGSTON BANK
DENHAM SPRINGS

WOODFIN-SMITH PONTIAC, INCORPORATED
BATON ROUGE